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Our issue on Japan examines the effects of the "new world order" on Japan's foreign policy. In our introductory article, Hideo Sato discusses how Japan should adapt to the changes in the global power balance: "To the extent that the United States is no longer willing and able to bear alone the cost of maintaining a stable international economic and political order, the nations of the world may have to depend on a system of plural leadership by major economic powers. . . . Japan would be a core member of such a system."

Japan's Role in the Post-Cold War World

BY HIDEO SATO

Professor of Political Science, Tsukuba University

THE world today is markedly different from the world of the 1950's and the 1960's. The cold war, which defined international relations during the postwar period, has come to an end. During the cold war, the United States had an obvious reason to maintain a substantial military presence in Europe, Asia and other parts of the world. Moreover, in shoring up the Western coalition against the Soviet bloc, it had a strong foreign policy incentive to guarantee "free trade for the free world." With Soviet President Mikhail Gorbachev's perestroika and the changes in East Europe, however, the United States may be less willing to maintain its military commitment overseas and may be less generous and patient with Japan and other allies over bilateral economic issues.

Another important change concerns the relative decline of American economic hegemony, as reflected in declining United States industrial competitiveness. In the immediate postwar years, the United States enjoyed international competitiveness in practically all domestic industries. But over the years it has lost its advantage in an increasing number of them, like textiles in the 1950's, steel in the 1960's, household electronics in the mid-1970's, automobiles in the late 1970's, and even high-technology industries, such as semiconductors, in the 1990's. In 1955 the share of the United States gross national product (GNP) in world GNP was about 40 percent, but it has been reduced to about

23 percent today. Until recently the United States was the world's largest creditor nation; it now labors under huge public and private debts. Under these circumstances, one cannot help assuming that the United States may not only be less willing but also less able financially to bear the cost of maintaining peace and the liberal economic order that has brought enormous prosperity to Japan and other trading partners.

The United States response to Iraq's invasion of Kuwait in August, 1990, shows that the United States is still willing to exercise leadership for the stated purpose of restoring peace and justice outside its borders. Indeed, without timely and effective leadership by the United States, it might have been impossible to enforce economic sanctions against Iraq or to mobilize the multinational force in the Gulf. However, this time the United States had to ask Saudi Arabia, Japan and other wealthy countries to share the expenses of maintaining the multinational force.

TOWARD A JOINT LEADERSHIP SYSTEM

To the extent that the United States is no longer willing and able to bear alone the cost of maintaining a stable international economic and political order, the nations of the world may have to depend on a system of plural leadership by major economic powers. Japan would be a core member of any such system.

Similar ideas have been expressed by others. C. Fred Bergsten has called for a "Big-Three Steering Committee" for the world economy, involving the United States, Japan and Europe.¹ Stanley Hoff-

¹Quoted in David Gergen, "For the Tripolar World, a Big-Three Steering Committee," *International Herald Tribune*, May 7, 1990.

mann advocates "a deal to redistribute power—now still largely in the hands of the United States—among the main actors in the international financial and economic organizations—the United States, Japan, and the European Community."² Robert Kuttner has suggested that

in some respects, a U.S.-dominated grand alliance was simpler and stabler than a plural system. But, for better or worse, a plural system is where we are headed. America cannot afford to "bear any burden, pay any price" to defend liberty and safeguard its interests—at least not single-handedly. Rather than going broke resisting that reality, the United States should seize the moment and work to build a stable, plural world order.³

Once important policymakers in key countries have embraced this scenario and have developed a common vision of the world they hope to build together, they will be in a good position to manage specific economic issues cooperatively. But the shift to a joint leadership system will not be easy. The United States would have to reject hegemony and refrain from projecting its own foreign policy onto the rest of the world. It would also have to consult and coordinate closely with key countries when making decisions that concern others. Of course, the other members of the joint leadership system would have to be more willing to share burdens and responsibilities, making necessary policy changes despite domestic opposition. Japan would be no exception.

JAPAN'S IMAGE PROBLEM

According to David Rapkin, Japan suffers from a "legitimacy deficit" overseas that may impair Japanese efforts to exercise international leadership. Sources of this problem include "the legacy of militarism and colonialism, a mercantilistic reputation, and disbelief that Japan can articulate univer-

salizable norms, values, and principles."⁴ Japan's lack of universalizable values and principles may not necessarily handicap it in exercising leadership as one of the primary countries in a joint leadership system. Besides, Japan already shares with the United States, West Europe and other countries such fundamental values as freedom, democracy and human rights.

Japan's militaristic history certainly constrains its relations with neighboring Asian countries, and any regional initiative coming from Japan tends to look suspicious to these countries. They are naturally wary of increasing Japanese economic influence, and some even wonder if Japan is again attempting to build the "Greater East Asia Co-Prosperty Sphere," its master plan to control the region during its 15 years of war with Asia and with the West. Although Japan allocates only about 1 percent of GNP to defense, its economy is so productive that its allocations for the armed forces rank third in the world, behind the United States and the Soviet Union. This factor, combined with memories of Japan's military aggression, seems to contribute to the Asian perception of Japan as a potential security threat.⁵

Many Japanese have a strong aversion to militarism—a reaction to the tight thought control exercised by the prewar military regime as well as to the scourge of war itself. In fact, the Japanese government found it difficult to send even unarmed Japanese military personnel to the multinational force in the Persian Gulf, fearing it would create a precedent for bypassing the postwar Japanese policy of not sending military units abroad. Japan must face the dark side of its modern history and sincerely demonstrate a repentant attitude in public education and in speeches by its politicians and officials in order to win the trust of its neighbors.

Japan's contributions to a joint leadership system would have to be basically nonmilitary. But this would be perfectly in tune with the demands of the post-cold war world. As Assistant Secretary of State for East Asian and Pacific Affairs Richard H. Solomon put it in a recent address,

We now face a future in which technological and commercial capabilities more than military strength are the significant determinants of state power and influence. National security is ever more reckoned in terms of economic and environmental concerns.⁶

In short, what Richard Rosecrance calls "the military-political world" is giving way to "the trading world," and Japan, as a "trading state," could provide a potentially useful model.⁷

However, Japan's mercantilistic reputation will be a serious drawback if it attempts to take on the role of trading state. Efforts must be made to erase

²Stanley Hoffmann, "A New World and Its Troubles," *Foreign Affairs* (Fall, 1990), vol. 69, no. 4, p. 120.

³Robert Kuttner, "The Former Free Riders Will Require a Say," *International Herald Tribune*, September 19, 1990.

⁴David P. Rapkin, "Japan and World Leadership?" in D.P. Rapkin, ed., *World Leadership and Hegemony*, International Political Economy Yearbook, vol. 5 (Boulder, Col. and London: Lynne Rienner Publishers, 1990), pp. 196–199.

⁵Steven Erlanger, "As Economic Competitors, Asians Rearm," *International Herald Tribune*, May 7, 1990.

⁶Assistant Secretary of State for East Asian and Pacific Affairs Richard H. Solomon, "Asian Security in the 1990s: Integration in Economics; Diversity in Defense" (Address to the University of California at San Diego Graduate School of International Relations and Pacific Studies, October 30, 1990; official text from the American embassy, Tokyo, November 1, 1990), p. 2.

⁷Richard Rosecrance, *The Rise of the Trading State* (New York: Basic Books, 1986).

Japan's protectionist image and convince other countries that Japan is a reliable leader committed to reciprocal and multilateral free trade. First and foremost, Japan must reduce its enormous global trade surplus, which was approximately \$64 billion in 1989. The surplus has been decreasing gradually from a peak of about \$83 billion in 1986, but more deliberate efforts are needed.

Over the years Japan has liberalized and expanded its market, and has increased manufacturing imports. Obviously, these kinds of changes can be accelerated. Japan must also play a more active role in preserving the multilateral free trade system from which it has greatly benefited.

SPECIFIC TASKS FOR JAPAN

Japan can overcome its "legitimacy deficit." Apart from practicing and promoting free trade generally, it should also carry out the following steps to pave the way for a viable joint leadership system.

One of Japan's first tasks is to accept greater responsibility in international financial markets. Japan became the world's largest creditor in 1985 and will remain so for the foreseeable future, despite the recent fluctuations in international stock and bond markets. Ironically, the yen is not regularly used in international transactions. If the yen can achieve a higher profile, Japanese policymakers will have to take international repercussions more into account. How can Japan increase the yen's role in international transactions? It cannot force foreign governments and companies to make greater use of the yen, but it can render the Japanese currency more attractive by further opening up Japanese capital markets.

Promoting economic growth and regional cooperation in Asia and the Pacific is a second task for Japan. As suggested earlier, national security is increasingly reckoned in economic terms. Sustained economic growth and prosperity can be a credible deterrent to aggression and instability. In Asia, dynamic economic growth is no longer a purely Japanese phenomenon. The "four tigers" of Asia—South Korea, Taiwan, Singapore and Hong Kong—have as a group one of the world's highest annual growth rates and have become major players in international trade. Their growth has been largely dependent on trade and investment with the United States and Japan, with United States imports far larger than Japanese imports. But the United States is less and less able to pay the cost of sustaining the region's economic growth. Moreover, it presumably has less of an incentive to do so with the decline in the perceived threat from the

Soviet Union. Japan could step in and share burdens as an "import absorber."

There have been increasing calls for some form of enhanced regional cooperation, including a proposal to form an Asian and Pacific free trade zone to counter the economic integration of the European Community in 1992 and the Canadian-United States free trade agreement. The diversity of the region in terms of country size, level of development, economic objectives, culture and political tradition make it impracticable to constitute formal policymaking bodies along European lines. The Asia-Pacific Economic Cooperation Conference, which held its first meeting in Canberra, Australia, in December, 1989, and its second in Singapore in July, 1990, appears to be a better alternative, because it is mainly a forum for discussion on economic issues and policies.

This does not mean that Japan does not have a security role in the region. Japan must share defense burdens with the United States, according to their mutual security treaty. Its most important security task is to help the United States remain a Pacific power by increasing support for stationing United States troops in Japan (though the number of troops could be gradually reduced in the future). Japan's own defense expenditures could be frozen or gradually decreased, depending on security concerns in the region. At some point Japan would have to define "minimum deterrence" for itself, while helping the United States to function as a balancer. As for its extraregional security role, Japan should provide personnel for United Nations peacekeeping operations and monetary contributions commensurate with its economic power.

Allocating its foreign aid effectively is a third task for Japan. Japan's official development assistance budget in 1990 was about \$10 billion, helping to make the country the largest donor of foreign aid among the 18 members of the development assistance committee of the Organization for European Cooperation and Development (OECD). But Japan's disbursements constitute only 0.32 percent of GNP, below the OECD average of 0.35 percent.⁸

Japan has generally refrained from attaching political conditions to its aid. This traditionally apolitical stance may need to be reevaluated as the cold war ends and the effect of Japan's aid program on world politics grows. Japan may want to adopt an aid policy more directly linked to democratic values, with special consideration given to countries that are seriously working toward greater democracy.

The condition that it be used for peaceful purposes may also be attached to aid money; Japan could deny assistance to developing countries that spend an inordinate amount of money on military

⁸*JEI Report* (Washington, D.C.: Japan Economic Institute), October 19, 1990, p. 8.

resources. Basically, Japan must articulate its aid objectives and prove that it, too, is interested in promoting universalizable values and principles.

A fourth task for Japan is to take the initiative in combating environmental problems. The world has become keenly aware of threats like acid rain, global warming, erosion of the ozone layer, the spread of deserts and the destruction of rain forests. Global warming, which is believed to be caused mainly by carbon dioxide emissions, is perhaps the most threatening problem. It could result in serious flooding as sea levels rise, in falling crop production and in the extinction of thousands of species.

On October 23, 1990, the Japanese government adopted a program to stabilize at 1990 levels by the year 2000 emissions of carbon dioxide and other gases, like methane and nitrous oxide, that contribute to global warming. At the Geneva environmental conference that immediately followed, Japan and 18 West European nations announced plans to freeze or cut emissions of harmful gases by the year 2000. The United States has refused to develop a policy addressing gas emissions; apparently, it is more concerned with the economic costs of such a policy than with protecting the global environment.

Japan is often seen as a major environmental villain, perhaps because it is a chief exporter of industrial finished goods, including automobiles, and because it imports large amounts of timber. But the United States and West European countries buy most of the timber exported from Latin America and Africa, where 81 percent of the world's tropical forests were destroyed between 1978 and 1981. In 1986, the Japanese share of timber imports from Africa was only 2 percent, and from Latin America, 0.7 percent.⁹

Japan could take the initiative on global warming and other environmental problems, since its leadership would not be perceived as a threat by other countries. Japan's pollution control measures are more advanced than those elsewhere. Japan has also developed effective energy conservation technology and is one of the few countries to resolve successfully the dilemma of economic growth and energy conservation. Consequently, it could be a model for other countries.

Creating a global partnership with the United States is the fifth task Japan must undertake. If the

world's two largest economies fail to manage their relations with each other, an international joint leadership system is nothing more than a pipe dream. Unfortunately, a recent speech by United States Under Secretary of State for Economic Affairs Richard McCormack does not lead one to be optimistic:

Japan has become a domestic issue in the United States. We see polls which label Japan as a greater threat to this country than the Soviet Union. Part of the reason for this is the correct perception that the Soviet military threat has decreased. But it also reflects a twofold concern about our economic position: apprehension that the U.S. is in decline, and that the Japanese have gained economic strength against us. . . . Our deficit with Japan is coming down, but a [\$40-billion] trade deficit with Japan is still politically unsustainable.¹⁰

Reduction of the bilateral trade imbalance is the main issue dividing the two countries. Japan has made a series of market-opening concessions, and the value of the yen in relation to the dollar has appreciated substantially since the United States, Japan, Great Britain, France and West Germany agreed in September, 1985, to intervene in the currency market to drive down the dollar's value. Yet the United States trade deficit has not come down as much as was hoped. The problem is that both the United States and Japan need to make changes in order to reduce the trade imbalance. United States officials have often admitted that a large part of the imbalance stems from the United States federal budget deficit, declining industrial competitiveness and lack of aggressive marketing efforts. In addition to further liberalization and expansion of its own market, Japan could step up direct investment by building manufacturing plants in the United States. The automobile industry and other industries in Japan have been moving in this direction. In the long run this would moderate growth in Japanese exports, provided that most of the necessary parts are procured in the United States.

Both countries could also identify and remove barriers to market-determined trade and investment flows. The so-called Structural Impediments Initiative (SII) is an example of this approach. In June, 1990, the United States and Japan concluded a year of intensive talks by issuing a joint report that committed them to comprehensive measures to re-

(Continued on page 179)

⁹Kyohiko Arafune, "Kankyo Hakaisha-Nihon no Hihna ni taishite" [In Response to Criticisms of Japan as Environmental Destroyer], *Gaiko Forum*, no. 16 (January, 1990), pp. 80-84.

¹⁰Under Secretary of State for Economic Affairs Richard McCormack, "Japan Must Reevaluate Its World Role" (Address to the North Carolina-Japan Forum, November 1, 1990; official text from the American embassy, Tokyo, November 9, 1990), pp. 4-5.

Hideo Sato's books include *The Textile Wrangle: Conflict in Japanese-American Relations 1969-1971* (Ithaca: Cornell University Press, 1979) and *Taigai Seisaku* [Foreign Policy] (Tokyo: Tokyo University Press, 1989).

For Japan and the United States, "a somewhat modified status quo can be sustained if both nations are clever enough in their policy adjustments. If the United States tries to do too much or too little, however, it runs the risk of ruining a relationship that has been extraordinarily beneficial for both the United States and Japan for more than three decades."

The U.S. and Japan: Building a New Relationship

BY MICHAEL NACHT

Professor of Public Affairs, University of Maryland

THE United States-Japanese economic and security relationship continues to be one of the most significant in contemporary international politics. The compact reached by the two nations in the wake of World War II has served both extremely well. For Japan it has meant being able to concentrate on economic development while enjoying the advantages of United States political, diplomatic and military support. During the dangerous days of the cold war, Japan was protected by American nuclear weapons, and United States conventional forces stationed in Japan made it clear to Soviet planners that an attack on Japanese territory meant triggering a war with its ally. During the 1960's and 1970's Japan built an extraordinarily powerful economy interconnected with the domestic market in the United States. In the 1980's the Japanese, reaping the benefits of peace, reached a level of prosperity unimagined only two decades before.

The United States has found the relationship equally valuable. Not only was Japanese behavior regulated to mesh with American security objectives, but the United States used Japanese territory to contain communism in Asia. United States military operations in Korea in the early 1950's and in Southeast Asia in the 1960's and early 1970's were facilitated by having American air and naval forces based in Japan; indeed, United States forces there became the pillar of American strategic policy in the Western Pacific. Moreover, although this has not been widely appreciated in the United States, the

relationship with Japan has been extremely helpful in times of economic weakness in the United States. United States-Japanese joint ventures in the automobile industry, for example, have been important engines for employment and productivity. Until 1990, Japan was a major buyer of Treasury bills and in effect helped finance the United States budget deficit of the late 1980's. In the stock market plunge of October, 1987, it is widely believed that Japanese stock purchases were instrumental in preventing a far more dramatic decline than the 500-point drop that occurred.

But the bilateral relationship is becoming unstable because of the erosion of the three premises on which it rested:¹ the consensus on the common threat of Soviet military power and Communist ideological appeal; the implicit and accepted pecking order in which the United States was the dominant player militarily, economically and politically and Japan the junior partner; and the mutual respect and reasonable harmony between the political elites of the two societies. Future relations between Japan and the United States will not be based on premises like these.

Although Soviet-Japanese relations remain frosty and Japan has been waiting for the Soviet Union to return the disputed Kurile islands north of Hokkaido (which may happen during Soviet President Mikhail Gorbachev's visit to Tokyo in April, 1991), the Soviet military threat is now perceived as almost nonexistent, along with the appeal of Communist ideology. Many in Japan as well as in the United States are asking why the relationship that was codified in the Security Treaty of 1960 needs to be maintained.

Since Japan achieved economic superpower status, the senior partner-junior partner relationship in security, economic and political matters has given way to a complex set of "mixed-motive" economic interactions in which competition and cooperation coexist in a sometimes tense and distrustful climate.²

Moreover, in recent years the dialogue between the elites of the two countries has grown acrimo-

¹For a more detailed discussion, see I.M. Destler and Michael Nacht, "Beyond Mutual Recrimination: Building a Solid U.S.-Japan Relationship in the 1990s," *International Security*, Winter, 1990-1991, especially pp. 99-103. See also Nacht, "U.S.-Japan Security Relations: Can the Status Quo Be Sustained?" (Summary of a presentation at the Sixth International Roundtable Discussion sponsored by the National Institute for Defense Studies, Tokyo, November 19-20, 1990).

²For a theoretical discussion of bargaining under "mixed motive" conditions, see Thomas Schelling, *The Strategy of Conflict* (Cambridge, Mass.: Harvard University Press, 1960), especially chapter 9.

nious. "Japan bashing" in the United States Congress is now commonplace, and in sectors of the United States suffering from industrial decline it is good politics to be critical of Japan. Prominent American writers like James Fallows, Clyde Prestowitz and Pat Choate have painted a picture of a Japan that does not trade fairly, that has a coordinated industrial policy posing a major economic threat to the United States, and that is subverting the United States policy process by paying high-priced talent in the United States to manipulate the economy and political system for it.³ On the Japanese side, significant political figures like Shintaro Ishihara, a member of the Diet from the Liberal Democratic party, believe the United States has lost its economic vitality and has made the Japanese a scapegoat rather than admitting to its own decline.⁴

In light of all this, it is obvious that the health of the relationship depends primarily on the successful management of economic competition and on finding a formula for burden sharing in security matters that has the support of both the Japanese and the American peoples.

ECONOMIC CONSIDERATIONS

The United States continues to be of singular economic importance to Japan. Despite recent efforts to increase exports to other countries, the value of Japanese exports to the United States in 1989 was in excess of \$93 billion—a \$10-billion increase from 1987—which amounted to 33.5 percent of all Japanese exports in 1989.⁵ This was roughly double the level of exports to Japan's second largest trading partner, the European Community. South Korea, purchasing 6 percent of Japanese exports, was in third place. On the import side, in 1989 Japan bought more than \$48 billion in goods from the United States—almost 23 percent of all its imports and far in excess of the \$28-billion worth it purchased from the European Community.

The trade imbalance, however, remains a serious irritant in relations between Japan and the United States. Export issues emerged as a problem area as early as 1969, when the United States asked Japan

³Arguments about the lack of a "level playing field" in bilateral trade relations and the threat to the United States posed by Japan's targeting of specific industrial sectors can be found in James Fallows, "Containing Japan," *Atlantic Monthly*, May, 1989, pp. 40–54, and in Clyde Prestowitz, Jr., *Trading Places: How We Allowed Japan to Take the Lead* (New York: Basic Books, 1988). See also Pat Choate, *Agents of Influence: How Japan's Lobbyists in the United States Manipulate America's Economic and Political System* (New York: Alfred A. Knopf, 1990).

⁴See Akio Morita and Shintaro Ishihara, *The Japan That Can Say No* (unpublished manuscript, unofficial translation).

⁵See *Japan 1991: An International Comparison* (Tokyo: Japan Institute for Social and Economic Affairs, October, 1990), p. 40.

⁶See Destler and Nacht, op. cit., pp. 98–99.

to limit textile exports. For 20 years United States officials have been applying pressure, first for Japanese tariff reductions, then for the removal of non-tariff barriers, and most recently for "structural adjustments" that would affect savings rates and business practices and alter the dollar-yen exchange rate.⁶

The trade deficit has in fact declined from a peak of \$56.3 billion in 1987, but its political salience remains powerful. Americans tend to believe that the Japanese are simply not fair traders—that they push exports and are rigidly protectionist in imports—whereas Japanese see the trade imbalance as a reflection of what they consider the superior quality of their products.

Investments by Japanese corporations in the United States—ranging from the purchase of Columbia Pictures to Radio City Music Hall in New York to MCA Inc.—have engendered substantial resentment in the United States. Neither British nor German nor most other foreign investments generate any particular comment in the United States; Japanese investments, however, are somehow seen not as a natural product of the laws of supply and demand in financing, but as elements in an orchestrated Japanese strategy to dominate the United States economy.

With a recession beginning in the United States, and with the failure in December, 1990, of negotiations at the General Agreement on Tariffs and Trade (GATT) meeting in Brussels to resolve difficult issues of agricultural protectionism, the United States Departments of the Interior, Justice and Treasury have taken a tougher stance on trade policies with Japan. One of the most highly publicized examples of this has been the action taken by the Department of the Interior to prevent the Matsushita Electrical Company from retaining the right to do business in Yosemite National Park (Matsushita, purchasing the entertainment conglomerate MCA Inc. for almost \$6.6 billion in the fall of 1990, also acquired the MCA subsidiary, the Yosemite and Curry Company, that operates park concessions). In the same vein, the administration of United States President George Bush is considering throwing its support behind the Fair Trade in Financial Services Act, which would permit discretionary sanctions against a country that allows United States companies fewer investment opportunities than its companies enjoy in the United States—legislation clearly aimed at Japan.

This piece of legislation is suggestive of future congressional action against Japan. It is expected that such legislation may proceed along four lines: the barring of investments perceived as affecting national and economic security; scrutiny of foreign influence in the political process; calls for an in-

crease in the United States corporate tax paid by foreign-owned companies; and measures involving specific industries. The enactment of such legislation would likely strengthen anti-American sentiment in Japan.

BURDEN SHARING

Since the late 1970's, many in the United States have said Japan ought to both increase the budget for its own defense and offset the United States bill for stationing military forces in Japan. The Persian Gulf crisis triggered by Iraq's invasion of Kuwait on August 2, 1990, has only exacerbated United States complaints. The United States took the military and diplomatic lead in the Gulf but then asked its allies, including Japan, to pay what it considered to be their share. Japan was reluctant to commit forces to the multinational operation in the Gulf crisis, in part because of constitutional restraints against using the military for purposes other than defense of the Japanese homeland. Nonetheless, Japanese Prime Minister Toshiki Kaifu pushed the idea, but was rebuffed in the Diet and suffered a humiliating political defeat.

In November, 1990, Representative Les Aspin (D., Wis.) graded each of the dozen or so countries involved in a major way in the Gulf conflict, based on six criteria: military participation, financial contribution, compliance with United Nations-mandated sanctions against Iraq, political support, response time, and special conditions involving a nation's ability to contribute and limitations on its contributions.⁷ Aspin noted Japan's constitutional constraints but was critical of the country for pledging only \$4 billion in aid and not delivering most of that; he awarded Japan a grade of "C."

There appears to be considerable sentiment in the United States that Japan has been too hesitant in its involvement, even though events in the Gulf ultimately affect Japan's economy far more than they affect that of the United States. With the outbreak of war in January, 1991, and the deaths of Americans to end the Iraqi occupation of Kuwait, resentment toward Japan could grow in the United States.

MANAGING THE TURBULENCE

Issues of economic competition and burden sharing will dominate United States-Japanese relations in the future. Adjustment to a mix of economic and technological changes will confront the governments in Tokyo and Washington, straining the lim-

its of bilateral cooperation. The United States must continue to press for the opening of Japanese markets and the reduction of nontariff trade barriers. But equally important, the United States needs to shore up its economy by reducing the budget deficit and enhancing industrial and educational effectiveness. These are daunting challenges. In the process, however, the United States must work to deepen its interdependence with Japan, because interdependence benefits both nations.⁸

In the area of national security, there appears to be a general trend toward reducing the United States military commitment to Japan, probably foreshadowing a reduction in the Philippines. Tokyo may well then lower commitments to its own defense. While many might applaud this, several scenarios could materialize that might cause Japan to think again and perhaps consider destabilizing policies.

What might these scenarios be? Two relate to the Koreans, with which Japan has a history of antagonism. First, it is possible that North Korea has a dedicated nuclear weapons program, the existence of which may soon be verified. Documentation of such a program could easily lead to the reestablishment of a South Korean effort to acquire nuclear weapons. Under such circumstances, it is unlikely that Japan would sit idly by without seeking some compensatory military capability; a move in that direction would send political shock waves around the world. In a drastically different Korean scenario, the death of North Korean President Kim Il Sung would be followed by Korean reunification. This would rekindle apprehension about Korea and would embolden conservative Japanese groups to agitate for a stronger military.

Another disturbing scenario involves the fragmentation of the Soviet Union and even the use of nuclear weapons in a civil war—such a scenario is no longer purely fanciful, given what has been happening in the Soviet republics since the fall of 1990. While Japanese security would not be directly threatened, the use of nuclear weapons would surely stimulate a major debate in Japan about its defense posture. Finally, a different blow to the system would be a worldwide economic downturn in which the quality of life in Japan dropped sharply. The plausibility of these scenarios can be endlessly argued, but the point is that if United States forces are greatly reduced in the region, Japan will be far

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⁷See Representative Les Aspin, "Burden-sharing Report Card on the Persian Gulf Crisis" (Washington, D.C.: House Armed Services Committee, November 14, 1990).

⁸The specifics of these recommendations are spelled out in Destler and Nacht, *op. cit.*, pp. 114-119.

"During the 1990's Japan is fated to remain America's number-one . . . illuminator of shortcomings in United States economic policies and business practices, and the principal source of frustration to American trade policymakers."

United States–Japanese Trade Relations

BY STEPHEN D. COHEN

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WITH the waning of the cold war and the reduced threat of confrontation between the global military superpowers, the United States and Japan arguably constitute the world's most important bilateral relationship.* This relationship now consists of a struggle—peaceful to be sure, but for enormous stakes—between economic superpowers. Relations between the United States and Japan feature a close political and military friendship that is being strained by a long-running series of economic frictions. To the dismay of political scientists, most American businesspeople and many American economists are urging their government to take an increasingly harder line with Japan in an effort to receive equitable treatment in what has long been viewed as an unbalanced, inequitable trading relationship.

The economic arguments between the United States and Japan have extraordinary significance. These two countries formed the world's newest and most important bilateral relationship not because of political or military considerations but because global power and influence among nations in the twenty-first century will be determined more by economic and technological strength than by the size and sophistication of weapons stockpiles. Japan and the United States, as the world's largest and strongest economies, will inevitably be the two forces to be most reckoned with in what may be the continuing evolution into a postmilitary international system. This is why the majority of respondents in some recent United States public opinion polls indicated that Japan, not the Soviet Union, represents the greatest long-term threat to American national security. There is an intuitive recognition (not yet fully shared by the United States government) that national security must be defined broadly to include industrial and financial strength.

Japan is the most significant foreign competitor of the United States and vice versa. No other country has mounted such a comprehensive and successful assault on the competitiveness of American in-

dustry, once the undisputed colossus of the world. No other country has in so many instances caught up to and surpassed the once unassailable American leading-edge superiority in the high-tech sector. No other country comes close to Japan in representing a future challenge to United States competitiveness in the critically important new technologies: supercomputers, semiconductors, superconductivity, composite materials, telecommunications equipment and so on.

For most Japanese, friendship with the United States represents political security to a country with a still undefined sense of international mission or function. The United States is also Japan's most important foreign market and a key determinant of its continued prosperity. At the same time, American industry has been a symbolic target for a country that wished to bypass it on the way to becoming an internationally dominant industrial power.

The importance and mutual rewards of the world's largest bilateral trade relationship are not in question. What is in question is whether the likely further escalation of bilateral trade conflict will erupt into damaging unilateral economic actions that in turn will lead to political estrangement. There can be no assurance that the previously successful record of trade-conflict management can continue indefinitely, especially in view of a possible expansion of Japan's industrial superiority in the future. Also not in question is whether, by conventional measurements, the Japanese trade performance has been superior to that of the United States.

What is in question is how the two countries should best respond to a state of affairs that tries everyone's patience. Japan's trade policy has centered on a flurry of activity designed to demonstrate responsiveness to United States demands but not necessarily to induce adjustment in the bilateral disequilibrium. From the American viewpoint, the specter of Japan's unbroken winning streak in trade competition was at the focus of virtually every new concept and proposed initiative introduced in United States trade policy in the 1980's. Possible responses to reverse its deteriorating trade position include reciprocity, industrial policy, results-

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Bilateral United States-Japan Trade Balances, 1981-1990

	U.S. Bilateral Deficit (\$ billion)	U.S. Imports from Japan (\$ billion)	U.S. Exports to Japan (\$ billion)
1981	\$15.8	\$37.6	\$21.8
1982	16.7	37.7	21.0
1983	19.3	41.2	21.9
1984	33.6	57.1	23.6
1985	46.2	68.8	22.6
1986	55.0	81.8	26.9
1987	56.3	84.6	28.2
1988	52.1	89.8	37.7
1989	49.0	93.5	44.5
1990	41.1	89.6	48.6

Source: United States Department of Commerce

oriented trade talks, and reinvigorated American industrial competitiveness.

There is a serious, systemic trade problem between the two countries that is seriously misunderstood, underestimated and inadequately addressed. It arises from political, cultural and economic forces. The trade disequilibrium is best viewed as the tip of the iceberg, with domestic factors as the main underlying causal factors. With both countries continuing to treat symptoms rather than causes, it is no surprise that trade conflict has occurred on a nonstop basis since 1969. To the extent that the diagnosis offered here is correct, neither an end nor a plateau in trade frictions is in sight.

Economic conflict begins with accusations by the United States and other countries that Japan is an unfair, adversarial trader that does not play by conventional international rules in order to pursue a mercantile policy of self-aggrandizement. Critics allege that Japanese markets remain largely closed, albeit informally, to imports of manufactured goods. Its exporting companies are said to be avaricious predators intent on building market share and destroying their foreign competition. The more rabid critics of Japan accuse it of continuing to fight World War II through economic means.

Japan, in turn, is tired of what has become an unbroken record of United States whining. It accuses the United States of excessive consumption, an inadequate effort to improve its own industrial productivity, and not trying hard enough to sell in the Japanese market. The boom in Japan's exports to the United States, according to Japanese critics, reflects the preferences of American consumers for low-cost, high-quality goods, some of which are not even manufactured in the United States. The more extreme critics consider the United States to be in permanent decline, a country that is burdened by poor economic policy management, an excessively heterogeneous population, an excessive need for in-

stant gratification, and shockingly bad business practices.

The proximate cause of the trade frictions is the large, seemingly permanent United States bilateral deficits with Japan (see the table above). It is legitimate to state unequivocally that these deficits have produced a genuine disequilibrium in political terms, that is, an American belief that something is grievously wrong and urgently needs rectification, mainly through adjustments by Japan. It is *not* legitimate to state unequivocally that these deficits represent an absolutely unacceptable economic disequilibrium. Bilateral deficits per se, as the Japanese are quick to point out, are relatively insignificant. It is multilateral trade balances that matter.

It is the sources of the bilateral trade imbalance that must be of central concern. Here again, there are many opinions but no genuine consensus. Conflicting perceptions are an inherent part of bilateral trade disputes. Some argue that the culprit is Japanese industrial policy, in which close government-business relations have built a mighty anti-import fortress known colloquially as Japan, Incorporated. Others contend that the culprit is the simple manufacturing ineptitude of the United States, a country alleged, but not proved, to be in the advanced stages of moving into a postindustrial services-oriented economy.

The systemic source of the imbalance is best viewed as a divergence in ends (priorities and values) and therefore a divergence in means (domestic, economic and trade policies). The American system is weighted in favor of the individual and consumption. The Japanese system is weighted in favor of the corporation and production. American ideology favors the free market and cheap imports. Japanese ideology favors government enhancement of market forces, industrial self-sufficiency, and world-class strength in the manufacturing sector.

The United States prints money to finance the world's largest trade deficit and in turn consumes more as a country than it produces. Japan saves like mad, accepts relatively poor housing and an inadequate infrastructure, and continues sending massive amounts of capital earned from its trade surpluses back to the United States, the effect of which is to compensate for this country's inadequate savings rate. American foreign relations for half a century have centered on political and military goals. Since 1945, Japan's foreign relations have sought to maximize exports.

The systemic problem is allowed to continue mainly because both sides have largely gained success as they define it. Another way to look at the situation suggests that the two countries have different, deeply rooted economic and social neuroses that almost, but not quite, complement one another. Conflict is inevitable. Important groups in the American political sector have been and will continue to be hurt by the onslaught of Japanese imports and by the difficulties of exporting to Japan. Others warn of intolerable economic, political, and national-security costs of a continued decline in relative American international competitiveness.

The net result has been a never-ending cycle of American demands for Japanese concessions—increased market access and export restraints—that have been met by an endless cycle of Japanese concessions with minimal impact. Countless Japanese import-liberalization measures have produced a nominally relative increase in American manufactured exports to that country. Japanese exports put one American industry after another at risk, thereby triggering United States calls to curb the market mechanism.

Unfortunately, neither country has seen fit fully to recognize or address the systemic nature of the problem. Furthermore, neither the United States nor Japan has altogether appreciated how differently each defines and diagnoses the situation. The widely divergent domestic, economic, and social situations in the two countries have created a perceptions gap in international trade relations that has been hardly touched by an intensive bilateral dialogue conducted at multiple levels since the early 1970's.

ORIGINS OF THE TRADE DISPUTE

As a Japanese surplus became a fixture in the bilateral trade relationship, the United States successfully induced Japan to take sustained actions on two fronts. The first involved additional "voluntary" export restraints in a number of sectors, including textiles, automobiles, steel, color televisions, and machine tools. The second involved Japan's initia-

tion of an unprecedented series of unilateral measures that eliminated or reduced hundreds of overt tariff and nontariff trade barriers. The result was an eventual Japanese contention that it had become the world's most open market (a valid claim, at least in regard to formal import restrictions). This assertion was not widely accepted in the United States, where complaints about the difficulty of succeeding in the Japanese market are still voiced by many American companies.

Bilateral consultations and negotiations continued throughout the 1980's amid continuous proposals by various members of Congress to pass harsh, retaliatory legislation as leverage to force genuine reciprocity in market access. As the "Japan problem" worsened, new forms of agreements were pursued. They included altering macroeconomic policies in an effort to increase the value of the yen's exchange rate relative to the dollar. Instead of a piecemeal approach to addressing United States corporate complaints, market-oriented, sector-selective (MOSS) talks were convened in 1985 to focus on all the alleged market-access problems for four specially designated goods in which the United States retained a comparative advantage (electronics, pharmaceuticals/medical equipment, telecommunications, forestry products, and, later, automobile parts). One year later, the two governments concluded a ground-breaking agreement involving trade in semiconductors; it sought to shelter the American industry from Japanese "dumping" (selling below production cost) of chips both in the United States and in third countries, and it sought to provide the American industry with a specific percentage (20 percent) of the Japanese market in lieu of any further Japanese promises of market-opening measures.

STRUCTURAL IMPEDIMENTS INITIATIVE

More new forms of negotiating modalities were introduced in 1989. The first was a direct outgrowth of Japan's being identified as a "priority" source of foreign-trade barriers against American goods under the Super 301 amendment to the Omnibus Trade and Competitiveness Act of 1988. Acting under the law, the administration of President George Bush named three areas—supercomputers, communications satellites, and wood products—that required either productive bilateral negotiations (read foreign concessions would be forthcoming) or eventual United States retaliation in kind against Japanese goods. The second, the so-called Structural Impediments Initiative (SII), was an indirect outgrowth of the Super 301 and marked a major conceptual breakthrough. The original American idea was to discuss the big picture for the first time by addressing such structural barriers to

Comparing Japan's Trade Structure with the West

Category	Japan				West Germany		United States		North America		European Community	
Manufactured goods (as percentage of GDP)	1980	1987	1988	1989	1980	1987	1980	1987	1980	1987	1980	1987
Exports	11.9	9.5	9.1	9.6	20.9	24.2	5.5	4.3	4.4	3.0	8.5	8.1
Imports	2.9	2.8	3.2	3.5	13.3	14.8	5.1	7.5	4.3	6.3	5.3	5.3
Balance	9.0	6.7	5.9	6.1	7.6	9.4	0.4	-3.2	0.1	-3.2	2.9	2.3
Non-Manufactured goods (as percentage of GDP)												
Exports	0.2	0.1	0.1	0.1	1.6	1.0	1.3	0.7	1.4	0.8	1.0	0.7
Imports	9.0	3.5	3.3	3.6	7.3	3.5	3.6	1.4	3.0	1.1	6.0	2.6
Balance	-8.8	-3.4	-3.2	-3.5	-5.7	-2.5	-2.3	-0.7	-1.6	-0.3	-5.0	-1.9

Source: Organization for European Cooperation and Development, *Summary Report on Trade of Japan* (Paris: OECD, 1990), *Far Eastern Economic Review* (Hong Kong), June 21, 1990, p. 47.

imports as the Japanese distribution system; the industrial structure (whereby companies in an extended consortium, such as Mitsui or Mitsubishi, tend to buy from one another), and the rigid pricing system for imports. But Japan insisted that the agenda be expanded to include its charges about the structural weaknesses in the United States that are allegedly the principal sources of the trade disequilibrium.

The contradictory positions that were subsequently introduced in the SII are a perfect microcosmic symbol of the near 180-degree difference in the way each country (and Japan's supporters in the United States) apportion blame for generating bilateral economic antagonisms. In this regard, the debate over causality becomes a kind of Rorschach test. Both of the main contending views on causality are rational. But, given the absence of incontrovertible scientific methodology to determine precise cause and effect, individuals unconsciously fall back on previous experiences, prejudices, and preconceived notions in identifying with one side over the other.

While both sides continue hurling charges at each other, the festering trade dispute has begun to spill over into other economic issues. The agenda now includes the concerns of some Americans about Japan's allegedly excessive investment in the United States, its rising political influence in the United States, and the wisdom of Japan's independent development of advanced military weapons like the FSX fighter.

FLAWS IN JAPAN'S ECONOMIC CASE

An economic maxim applies to Japan: for society as a whole, there is no such thing as a free lunch. There can be no denying that Japan has achieved an economic miracle in its industrial sector since the 1950's. The miracle received crucial assistance from a seemingly universal consensus in the country that

individual sacrifices had to be made in order to accomplish the priority goal of industrial recovery, a concept that could easily be embraced in a society that emphasized a group orientation. Japan's unprecedented industrial success, the springboard for its unprecedented trade success, also flowed from unexpectedly successful official policies and from unexpectedly brilliant accomplishments by private industry.

The major flaw in Japanese international economic relations continues to be the inhospitable atmosphere accorded to imports of sophisticated manufactured goods. Japan can honestly boast of having the lowest level of overt barriers and point to recent sharp upturns in its level of manufactured imports. Nevertheless, it has a surplus in manufactured goods so large (a world-record-shattering \$172 billion in 1988) that it renders absurd the often heard Japanese claim that it must export a lot of manufactured goods in order to pay for its imports of raw materials. Japan's trade pattern continues to be in a class by itself in terms of the low figure for imports of manufactures as a percent of gross national product and its relatively low volume of intraindustry trade, that is, importing the same kinds of products that are exported, such as cars.

Japan poses an extraordinary problem for the United States in that a nearly complete array of the traditional techniques utilized in economics to

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Since they resumed relations in 1972, China and Japan have enjoyed growing economic ties. According to this author, these ties were strained by China's crackdown on its democracy movement in 1989. The crackdown "threw Sino-Japanese relations into disarray. The short-term impact was devastating."

Sino-Japanese Relations

BY ULDIS KRuze

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RELATIONS between Japan and China continue to expand and improve, although they suffered a traumatic though temporary setback following China's suppression of its student-led democracy movement in 1989. The greatest progress between these two East Asian powerhouses has been seen in their growing economic relationship. Since Sino-Japanese relations were normalized in September, 1972, trade has increased dramatically, from \$1.1 billion in 1972 to \$15.7 billion in 1987. By 1988, bilateral trade stood at \$19.3 billion. Japanese investment in China that year came to \$380 million, and more than 80 percent of private and government loans to China originated in Tokyo. The chaotic conditions generated by the political upheavals in China in 1989 did not slow trade, which rose 1.7 percent over the previous year and reached \$19.66 billion. In 1990, two-way trade is expected to total nearly \$19 billion.

Both countries have eagerly developed this relationship. China has become an important part of Japan's efforts to develop an Asian economic bloc led by Japan. After the September, 1985, Plaza Accord* devalued the dollar and eventually boosted the value of the yen by almost 50 percent, Japanese companies sought to keep their products competitive on world markets. Reducing the number of factory and office personnel and increasing reliance on technology and corporate restructuring were Japan's domestic solutions to *endaka* (the rising yen).¹ External solutions included attempts by Japanese corporations to move their manufacturing

*Editor's note: The Plaza Accord involved the United States, Japan, Great Britain, France and Italy. Meeting in New York, representatives of the 5 nations agreed to intervene in world currency markets in order to devalue the dollar and strengthen the yen.

¹Megumu Kondo, "Major Steel Firms Forge Profits as Soaring Demand Lifts Industry," *Japan Economic Journal*, December 24, 1988.

²Katsuro Kitamatsu, "Japan Launches New Phase of Spiraling Economic Growth," *Japan Economic Journal*, November 12, 1988.

³"Overseas Investment Reaches \$30 Billion," *Japan Economic Journal*, February 4, 1989.

facilities overseas to secure the advantages of cheaper labor and access to the domestic markets of Japan's Asian neighbors.

Japanese economists estimated that labor costs in China in 1988 were about 10 percent of labor costs in Japan, and lower than costs in booming Asian NIC's (newly industrializing countries) like Hong Kong and Taiwan. Wages in Shenzhen, a Special Economic Zone (SEZ) in China that is located across the border from Hong Kong, were less than half those paid in the British Crown Colony. Moreover, offshore products would reduce the level of exports from Japan to the United States and other markets, thereby mollifying critics in the United States and elsewhere who were becoming increasingly vocal about Tokyo's "unfair" trading practices. Toshiba, for example, announced in 1988 that it planned to increase its offshore production to 15 percent of sales.² China became an important beneficiary of this new economic imperative (what the Japanese referred to as the "yen shock") that was driving Japanese corporations offshore. According to a Japan External Trade Organization (JETRO) report released in February, 1989, Japanese investment in Asia grew 109.7 percent in fiscal 1987, and expanded more than fivefold in China itself.³

Growing competition with Europe and the United States for access to the China market also played a role in increasing Japanese economic interest in the People's Republic. France, West Germany, Norway, Luxembourg, Belgium and Italy had begun to offer "soft loans" to Beijing. West Germany, for example, offered a 100-million-deutsch mark loan to China in early 1988; the loan had a 2 percent interest rate, was repayable in 37 years, and had a repayment schedule that began after a 10-year grace period. The leniency of loan terms, the willingness of Europeans to transfer the technology China wanted, and China's decision to consider Japanese and European economic efforts on an equal basis put the Japanese government and business community on notice that they faced a stiff challenge in the China market.

Japan's growing economic relationship with China since 1972 has been profitable for Japanese corporations. Except in 1982 and 1989, Japan has consistently run trade surpluses with the People's Republic, a fact that the Chinese government has complained about to Tokyo. In the 1970's, Japan had an average annual trade surplus of \$500 million with China. In 1982, however, China experienced one of its few trade surpluses with Japan, running \$2 billion in the black. Between 1983 and 1989, Japan regained a substantial edge, piling up a surplus of \$3.1 billion in 1984, \$8.9 billion in 1985, \$7.6 billion in 1986, \$3.7 billion in 1987, and \$3.1 billion in 1988.⁴ In 1989, because of massive Chinese cutbacks in imports and a parallel export blitz, Japan posted a \$2.62-billion deficit.

In the late 1980's, both Beijing and Tokyo tried to resolve some of the many policy differences and practical difficulties that had emerged in their relationship. Japanese companies continued to complain about China's lack of infrastructure—poor communications and outmoded transportation facilities—which hampered their activities in China. Despite the lure of the China market and a decade of “open door” access, Japan's Ministry of International Trade and Industry (MITI) revealed in 1988 that only one-tenth of the 360 Sino-Japanese joint ventures had been profitable or “fruitful.”⁵

Pressured by an appreciating yen and faced with growing competition from Europe and the United States, Japanese business looked to the Japanese government to develop the obsolete or nonexistent infrastructures of China and other Asian countries and thereby to smooth the path of going offshore. Prime Minister Noboru Takeshita enlarged Japan's official development assistance (ODA) program, and in 1988 Tokyo disbursed \$2.9 billion in ODA loans and grants to Indonesia, Thailand, the Philippines and other Asian nations.

China became the principal beneficiary of this new shower of yen when Takeshita visited Beijing in August, 1988, and pledged a six-year, \$5.9-billion loan package to China. This soft loan would cover 42 projects, including the building of roads, dams, railroads, port facilities, telephone networks

and power plants in remote provinces like Yunnan and Hainan Island, and even around developed areas like Shanghai and Tianjin.

To assure the smooth implementation of the loan package and to facilitate future Japanese investment, Takeshita and China's Prime Minister, Li Peng, also signed an agreement on August 27, 1988, protecting Japanese investments in China and putting Japanese ventures there on a par with their Chinese counterparts. This was the first time the Chinese had agreed to offer such favorable terms to another country. Japanese firms were delighted with the arrangement because they would no longer have to pay special charges for electricity, materials or services for their Chinese operations and because their equity positions were guaranteed. When Li Peng visited Tokyo in April, 1989, both countries agreed to set up a bilateral organization to promote investment in China by small and medium-size Japanese enterprises. Though stalled by the June, 1989, Tiananmen incident,[†] the Japan-China Investment Promotion Organization was finally inaugurated on March 29, 1990, with former Prime Minister Takeshita serving as an adviser.

CHINA'S DEVELOPMENT STRATEGY

China's interest in developing economic ties with Japan stemmed from its “open door” modernization program, which was launched in December, 1978. Gaining access to Japan's capital, technology and trade would help China achieve the Socialist modernization so eagerly sought by Deng Xiaoping, China's de facto leader. By 1988, however, the Chinese leadership had begun to disagree over the pace and scope of the economic reforms. The leader of the reform group, Zhao Ziyang, the General Secretary of the Chinese Communist party (CCP), pushed for a decentralized economy, de-controlled prices and a bold strategy of opening China's coastal regions to foreign investment. The more conservative faction in the CCP, headed by Prime Minister Li, wanted to focus attention on improving productivity in existing enterprises and taming the rampaging 26 percent inflation rate.

The conservative faction won the debate and a policy of austerity and budget cutbacks began. According to Prime Minister Li, China had to “firmly do away with economic overheating, slow down overly rapid industrial growth and proceed to maintain a reasonable growth rate.”⁶

Japanese reactions to the new austerity program were mixed. Some recalled China's abrupt termination of contracts in 1980 and 1981, when Beijing's foreign currency reserves ran low. Japanese observers feared that the Chinese would once again fall victim to domestic political instability and would

[†]Editor's note: On June 4, 1989, the Chinese government put an end to pro-democracy demonstrations by sending troops to Tiananmen Square, the central location of protests in Beijing; the troops fired on the unarmed demonstrators, killing an unknown number. For further details, see *Current History*, September, 1990.

⁴Todd Thurwachter, “Japan in China: The Guangdong Example,” *The China Business Review*, January-February, 1990, p. 7.

⁵“Hainan Island Luring Japanese Investment,” *Japan Economic Journal*, April 9, 1988.

⁶Edward Gargan, “Beijing Strengthens Centralized Control of Fitful Economy,” *The New York Times*, October 1, 1988.

unilaterally cancel or suspend joint ventures with foreign concerns. Japanese investors in hotels, office buildings and other large-scale construction projects were particularly fearful because the Chinese government had specifically mentioned these areas as the main cause of inflation and thus the main targets of the austerity program.⁷

Other Japanese analysts, however, were more supportive of China's austerity program. The Bank of Japan agreed that "China needs to curb total demand and arrest its inflation, if it is to attain sustained economic growth in the years ahead."⁸ Short-term retrenchment and realistic economic growth, according to this argument, would eventually lay the foundation for rapid and sustainable growth.

According to Japan's major financial newspaper, Prime Minister Li's visit to Tokyo in April, 1989, "eased" the concern felt among Japanese businessmen and investors because of the austerity program.⁹ The newspaper report added, however, that "much more has to be done before Japanese capital starts moving into China on a massive scale again." It was in this context of diminished economic expectations and anxiety over future developments that China's democracy movement emerged.

TIANANMEN'S EFFECT ON RELATIONS

The dramatic and tragic June 4 massacre at Tiananmen Square and the subsequent crackdown on the democracy movement by China's hard-liners (Deng Xiaoping, President Yang Shangkun and Prime Minister Li) threw Sino-Japanese relations into disarray. The short-term impact was devastating.

First, a large segment of the Japanese community quickly fled from China. Of the estimated 8,100 Japanese nationals living in the People's Republic, only 2,000 remained by June 8. The Japanese government advised its citizens to leave the country and many left on special flights arranged by Japan Air Lines and All Nippon Airways.

Second, many joint projects came to a halt after Japanese partners closed their offices. Beijing Sanyo Electronics, for example, was forced to stop

operations at its facility in Beijing when 100 of its Chinese employees could not get to work because of the chaotic political situation. Yokogawa Electric in Xian temporarily closed its plant and sent employees home. NEC and Canon closed their operations in Beijing, and Koito suspended operations at its plant in Shanghai.

Third, domestic and foreign criticism that Japan was not doing enough to show dissatisfaction with the brutal crackdown led the Japanese government to announce on July 15, 1989, that it would suspend negotiations on its promised \$5.9-billion loan to Beijing. In a meeting with British Prime Minister Margaret Thatcher, Prime Minister Sosuke Uno remarked that Japan would not implement the loan "until we are fully convinced of the continuity of reform and the open door policy in China." The loan package remained in limbo until July, 1990, when Japan resumed negotiations.

Fourth, tourism stopped. If televised images of armed Chinese soldiers shooting unarmed demonstrators did not chill the potential Japanese visitor's urge to see Beijing, then Japan's Ministry of Foreign Affairs warning not to visit China did. This represented a great setback for what appeared to be a booming sector that was profitable for both Japan and China and that had even brighter prospects for the future. According to statistics released by the Japanese Transport and Justice Ministries, 227,559 Japanese visited China in 1984; these numbers increased annually by as much as 25 percent, and had reached 476,571 in 1988.¹⁰ After June 4, the number of tourist excursions to China fell by 80 percent; the trips resumed only after the travel advisory was lifted on September 25, 1989.

Fifth, in June, 1989, the United States asked Japan and the major European countries to apply more stringently the Coordinating Committee for Multilateral Export Controls (COCOM) rules governing the transfer to China of technologies that could be used for military purposes.^{**} This effectively put on hold Matsushita's efforts to coproduce videocassette recorders with Beijing, and it had a chilling effect on other high-technology companies that had previously made plans to form joint ventures with China.

Finally, Japanese public opinion became more negative toward China. According to a nationwide poll taken by the Prime Minister's office between October 12 and 22, 1989, 43.2 percent of the respondents said they did not feel friendly toward China, up from 26.4 percent recorded in a similar survey done in 1988.¹¹ Those who still maintained a friendly attitude constituted a majority at 51.6 percent, but their numbers were down sharply from the 68.5 percent who expressed that viewpoint in 1988.

^{**}Editor's note: Japan and the member nations of the North Atlantic Treaty Organization (except Iceland) make up COCOM, which oversees and regulates the member nations' export of strategic goods to Communist nations.

⁷Satoshi Isaka, "China Retrenchment Makes Investors Uneasy," *Japan Economic Journal*, October 29, 1988.

⁸Bank of Japan Report Says China Must Curb Domestic Demand," *Asahi Evening News*, April 8, 1989.

⁹Akinori Iwaki, "China Vows to Stay Course," *Japan Economic Journal*, April 22, 1989.

¹⁰"China Travel Ban Putting Agents Out of Business," *Mainichi Daily News*, August 5, 1989.

¹¹"Dislike of China Increases," *Japan Times Weekly International Edition*, vol. 30, no. 15 (April 16-22, 1990).

GOVERNMENT WAFFLING

The events of June 4 evoked two different responses in Japan. While Prime Minister Sosuke Uno's new administration offered a mild and cautious rebuke to Beijing, Japan's media, opposition parties and other social groups expressed their deep revulsion and dismay, and asked Japan to impose sanctions.

Ironically, the Japanese Communist party issued the most stinging Japanese criticism of the Chinese government and its Communist party for shooting unarmed demonstrators. Condemnation also came from municipal assemblies in Kyoto and Kagoshima. Both passed unanimous resolutions in June, 1989, deploring China's use of violence against peaceful demonstrators and demanded that their own government do more to impress on the Chinese leadership its need to follow democratic principles. Two of Japan's leading trade unions (the Japan Private Sector Trade Unions Confederation and the General Council of Trade Unions of Japan [Sohyo]) also protested the Chinese government's actions; Sohyo postponed a planned visit to the People's Republic by a 100-member delegation.

Official Japanese government statements, however, were designed not to ruffle the feathers of China's hard-liners. One day after the massacre, Taizo Watanabe, a Japanese Foreign Ministry spokesman, expressed his "concern" at the developments in China and his "hope" that the situation would not be further "aggravated." Prime Minister Uno waited four days before making a public announcement on the issue, finally informing the Diet that China's use of force against the democracy movement was "a matter of grave significance" and that "leveling guns at the people is serious."

Why was the Japanese government so slow to condemn the Chinese hard-line leadership? Did its overriding commitment to Japanese economic interests in China blind it to the human rights issues involved in the suppression of the democracy movement? The answer is yes, although other factors, including domestic political instability and deteriorating trade relations with the United States, also played a role.

Japan's economic interests in China — its "fortress of investment," as one prominent businessman called it — would have been jeopardized if Japan, like the European Community (EC) and, to a lesser degree, the United States, imposed harsh sanctions on China and succeeded in isolating Beijing. With 80 percent of China's foreign loans originating from Japan, China represented a wonderful opportunity for long-term lending. Japanese bankers feared that, should China become isolated, Beijing would not be able to pay its debts accumulated in the 1980's, the majority owed to Japanese banks. The

economic arguments for maintaining ties — even in the face of strong popular censure of the Beijing government — prevailed over the human rights arguments.

However, Japan's economic relationship with the United States also led Japan to criticize, if only lightly, the crackdown in Beijing. On May 25, 1989, the administration of United States President George Bush delivered a broadside attack on Japan. It announced that it would launch a "Structural Impediments Initiative," which would identify business practices that the Japanese needed to alter substantially in order to satisfy their main trading partner. Later that week, at the height of China's democracy movement, Carla Hills, the United States trade representative, declared Japan an "unfair trading partner" and therefore liable to sanctions if it did not open its market more fully within 18 months. Failure to comply at least partially with United States demands on the China issue might harm Japanese interests substantially when it came to bargaining on access to the United States market. As a result, the Japanese government waffled in its public statements regarding China, hoping to keep its economic ties with both China and the United States intact.

CHINESE STUDENTS AND IMMIGRANTS

The Chinese student community in Japan emerged in the late 1980's as a significant force in Sino-Japanese relations. China's "open door" policy and the lure of higher paying jobs in Japan led to an upsurge in the number of Chinese who wanted not only to study in Japan, but also to work there. The size of this Chinese community began to grow substantially in 1987. For example, 1,000 Chinese were enrolled in Japanese language schools in 1985, 7,200 in 1987 and 30,000 in 1988; by 1989, approximately 42,000 Chinese students were living in Japan. The sheer size of this new community, its growing political activism in 1989 and afterward, and the implications for Japan's overall immigration policy posed new problems for Sino-Japanese relations.

For some Chinese, legal immigration took place under the rubric of "language study." Chinese wanting to work in Japan would pay between 85,000 and 500,000 yen to a "broker" in Hong Kong

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"Major changes like those that have occurred in Soviet relations with the United States, Europe and China have been absent from Soviet-Japanese relations because of the unresolved territorial dispute and because Japan is skeptical that the changes wrought by [Soviet President Mikhail] Gorbachev will fundamentally reduce the Soviet threat."

Soviet-Japanese Relations: More of the Same?

BY RAJAN MENON

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IN 1991, Soviet President Mikhail Gorbachev could pave the way for a fundamentally new Soviet-Japanese relationship by settling the long-standing territorial dispute between Japan and the Soviet Union, thus breaking the cold war pattern of limited economic interaction and high levels of mutual distrust.* It is therefore an opportune time to assess Soviet-Japanese relations.

Major changes like those that have occurred in Soviet relations with the United States, Europe and China have been absent from Soviet-Japanese relations because of the unresolved territorial dispute and because Japan is skeptical that the changes wrought by Gorbachev will fundamentally reduce the Soviet threat.

Soviet analysts believe that Japan has belittled the changes that perestroika and "new thinking" have brought to Soviet foreign policy, which include the withdrawal from Afghanistan; the acceptance of a treaty on intermediate-range nuclear forces (INF); the removal of Soviet forces from Mongolia; and the offer to trade the naval base at Cam Ranh Bay in Vietnam for United States installations at Subic Bay and Clark Field in the Philippines. Other foreign policy changes include reductions made in the Soviet military presence in Cam Ranh Bay through the removal of the MiG-23 fighters and half the Tu-16 bombers, and the move toward a smaller naval deployment.

Instead, Soviet analysts say that Japan continues to publicize the continuing danger of Soviet armed forces in Asia. In particular, Soviet commentaries have criticized the assessment of Soviet military power in the Pacific in a White Paper by the Japan-

ese Defense Agency. This defense agency report stresses that there has been no significant reduction in Soviet military power in Asia since Gorbachev's ascent to power.¹

Soviet analysts also complain that Japan has rejected Soviet proposals for arms control and confidence-building measures in the Pacific and has cast doubt on their sincerity, fairness and regional security value. Japan continues to stress the value of regional nuclear forces for deterrence and to dismiss Soviet proposals for nuclear-free zones.

For Japan, the key impediment to normal Soviet-Japanese relations is the territorial dispute over the Habomais island group and the islands of Shikotan, Kunashiri and Etorofu, which lie north of the Japanese island of Hokkaido at the southern end of the Kurile archipelago. These islands have been under Soviet control since the end of World War II, but Japan claims rightful ownership. Japan's determination to regain them has not weakened since 1945; if anything, it has grown in recent years. Thus in 1981 the government proclaimed February 7 "Northern Territories Day." The date marks the signing in 1855 of the Treaty of Shimoda between Japan and Russia, which partitioned the Kurile chain, giving the now disputed segment to Japan. Japan has doggedly insisted that all the disputed islands must be returned without preconditions and has explicitly ruled out compromises like a transfer of some of the islands or an arrangement for joint use by both the Soviet Union and Japan.

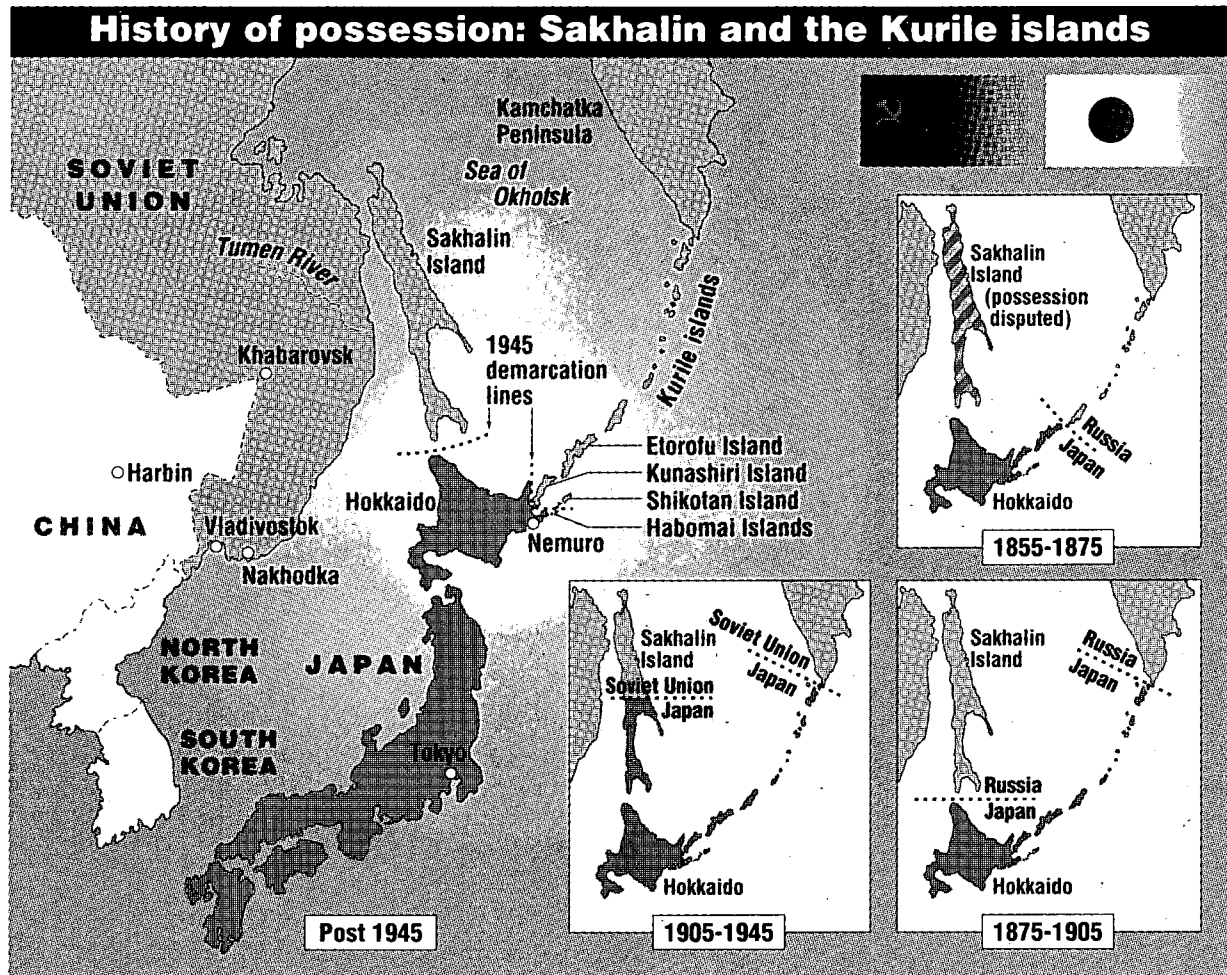
Without some agreement on a framework to tackle the dispute over the islands, Gorbachev's visit to Japan might fail to produce any economic or political breakthroughs. Soviet analysts have periodically sought to gauge the Japanese reaction to some compromises.

Former Ambassador to Japan Nikolai Solovyov has written that, "in the past, Soviet diplomats would be accused of saying 'No!' virtually before they sat down at the negotiating table. Today we are discussing all issues with [the Japanese], including the state frontier line."² During his visit to

*The research support of the Kennan Institute for Advanced Russian Studies, the Council on Foreign Relations, the Institute for the Study of World Politics and the International Research and Exchanges Board is gratefully acknowledged. An extended version of this article appeared in *Survival*, March-April, 1991.

¹See the translation of the White Paper, "Defense of Japan, 1989," in the *Japan Times* (Tokyo).

²Nikolai Solovyov, "On the Japanese Islands," *International Affairs*, no. 9 (September, 1989), pp. 112, 115.



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Japan in November, 1989, former Soviet Deputy Council member Aleksandr Yakovlev held out the intriguing but undefined prospect of "a third way," meaning neither Japanese nor Soviet sovereignty over the islands.

These trial balloons emerge against the backdrop of Moscow's continued assertion that Japan's claims to the islands lack any legal basis. Since acquiring the disputed islands at the end of World War II, the Soviet Union has insisted that their disposition was decided by the Cairo Declaration, the agreements at Yalta and Potsdam, and the San Francisco Treaty. Therefore, there is no territorial dispute between Japan and the Soviet Union; Japan simply lacks any tenable claim to the islands.³

There are now signs within influential Soviet cir-

³The official Japanese position is that the islands claimed by Japan were never part of the Kurile archipelago and thus are not covered by the provisions of the Cairo Conference (1943), the Yalta and Potsdam agreements (1945), and the San Francisco Treaty (1952).

⁴The existence of divergent opinions on the territorial dispute was apparent from a conversation that this author had in Moscow with a Soviet scholar in June, 1989.

⁵Interview with *Asahi Shimbun* (Tokyo), October 26, 1988.

cles of a reassessment of the Soviet position.⁴ Important political leaders, scholars and commentators have suggested the possibility of compromise solutions. In remarks to a Japanese newspaper in October, 1988, Yevgeny Primakov, a key foreign policy adviser to Gorbachev, called for mutual flexibility, apparently suggesting that the Soviet position could shift if Japan dropped its claim to all the islands.⁵ At a Soviet-Japanese symposium held in Tokyo in July, 1988, Georgi Kunadze, a leading Soviet specialist on Japan, suggested the need to explore various options involving mutual compromise. In December, 1988, Mikhail Titarenko, director of the Far East Institute, resurrected a 1956 Soviet proposal to return the three Habomai Islands and Shikotan island, the smallest and the closest to Japan. He suggested that the disposition of the other islands could be settled after the conclusion of a formal peace treaty between Japan and the Soviet Union. According to Japanese sources, Kunadze reiterated this plan in October, 1990.

While there has been no fundamental and dramatic shift in the official Soviet view, the government has displayed some flexibility. In 1986,

Japanese were allowed to visit ancestral graves on the disputed islands without visas; subsequently the number of locations opened for such visits was expanded. During Soviet Foreign Minister Eduard Shevardnadze's December, 1988, visit to Japan, an agreement was reached to establish working groups to discuss the conclusion of a peace treaty. Shevardnadze noted that these groups would deal with several issues germane to the signing of a peace treaty, including the island territories.

These signs of a Soviet reassessment and the effort to elicit Japanese reactions to a possible compromise are promising. But there has been no statement of a clear and fundamentally different position on the territorial dispute with Japan from the upper echelons of Soviet leadership. Indeed, in March, 1989, the first session of the working groups, led by the deputy foreign ministers of the two countries, offered little hope for the rapid resolution of the territorial dispute. In an interview with *Izvestia* at the conclusion of the negotiations, Soviet Deputy Foreign Minister Igor Rogachev stated that the Japanese side "confined itself mainly to expounding its well-known approach, which amounts to territorial claims on a number of the islands of the southern part of the Kurile chain, which belong to the Soviet Union." He criticized this as a "narrow approach" that contained "nothing new," adding that "the fact that these lands belong to the Soviet Union is the cornerstone of our position, which is based on the principles and norms of present-day international law." Moreover, he insisted that "the Kurile islands are age-old Russian lands by right of first discovery, first annexation, first settlement and first exploration."⁶ In October, 1990, Ludvig Chizov, who replaced Solovyov as ambassador in September, 1990, ruled out the possibility of any grand solution to the territorial dispute during Gorbachev's projected visit in April, 1991. Chizov's remarks came shortly after Shevardnadze's statement before the Supreme Soviet that transferring the disputed territories to Japan was not under consideration.

Even if it wished to compromise, Tokyo has restricted its room for maneuver. The government has already invested the island territories with so much patriotic symbolism in the public mind that it cannot now yield. The fact that it may have politicized the territorial dispute to such a high degree in part to demonstrate to Moscow its resolve and its inability to compromise is irrelevant.

⁶*Izvestia*, March 28, 1989, p. 5.

⁷In July, 1989, in response to written questions from a Japanese television station in Kyodo, General Mikhail Moiseyev, the chief of the Soviet general staff, stated that Soviet military deployments on the islands would not be affected by the planned reductions of Soviet military power in Asia. See Foreign Broadcast Information Service, *Soviet Union Daily Report* (hereafter cited as FBIS), July 21, 1989, p. 21.

Gorbachev faces even greater difficulties in agreeing to a settlement that would surrender Soviet territory in exchange for better relations with Japan. The economic situation in the Soviet Union is deteriorating, and no relief is in sight; this has greatly diminished Gorbachev's popularity. Rebellion in the non-Russian republics has reached a point where the break-up of the Soviet Union is a distinct possibility. At a time when the republics are proclaiming sovereignty, it is far from clear that a settlement that involves relinquishing some or all of the disputed islands to Japan could be reached without the Russian republic's approval (from the Soviet standpoint, the islands form part of the Russian republic and are regarded as part of the compensation for the sacrifices of World War II). Indeed, Andrei Kozyrev, the foreign minister of the Russian republic, has called for the participation of his republic in any such negotiations, while the chairman of the executive committee of the soviet of Sakhalin oblast, which has direct administrative responsibility for the islands, has insisted on a role for oblast authorities. The combination of economic crisis and political instability will make it much more difficult for Gorbachev to part with some or all of the islands claimed by Japan — particularly because his political reforms have brought into being an outspoken press, an outspoken public and a legislature that is no longer a mere rubber stamp.

Gorbachev also faces strategic considerations that make it difficult to offer Japan a major concession on the territorial dispute, especially since Japan is an ally of the United States. The disputed islands lie at the southern end of the 700-mile Kurile islands archipelago, stretching from Cape Lopatka at the tip of the Kamchatka peninsula to Hokkaido. The Kurile chain guards the strategic Sea of Okhotsk, where many of the Soviet Union's strategic nuclear submarines will be deployed from the naval base of Petropavlovsk on the Kamchatka peninsula in a crisis.

More specifically, in the Soviet view, Japan is deeply involved in the United States maritime strategy. In the event of war, this strategy calls for the penetration of the Sea of Okhotsk to find and destroy Soviet submarines; it also includes the bottling-up of the Soviet Pacific Fleet by blocking the straits, including those in the Kuriles, that govern its access to the high seas. Remarks by senior Soviet military officers suggest that there is little support in the upper levels of the armed forces for giving up such a strategic outpost — one in which since 1978 the Soviet Union has deployed troops totaling roughly one division who are supported by tanks, armored personnel carriers, surface-to-air missiles, artillery, Mi-24 helicopter gunships, MiG-23 fighters and 130 mm cannons.⁷

There has been considerable speculation that Moscow may be willing to offer Japan the three Habomais islands and Shikotan island. They are smaller than Etorofu and Kunashiri and contain no Soviet forces. Moreover, they are located to the east of the main Kurile island chain. Coupled with the demilitarization of the Habomais and Shikotan—to allay Soviet fears that Japanese or United States surveillance systems would be deployed on them—this could well form the basis for a solution if the Soviet Union and Japan were willing to budge from their current positions. Another possibility that cannot be excluded, but which now seems unlikely, is a grand gesture by Gorbachev during his projected 1991 visit to Japan aimed at breaking the logjam in relations between the Soviet Union and Japan.

Moscow has had ample time to realize that the territorial dispute must be resolved in order to attract Japanese financial interest. Moreover, vastly improved relations between the United States and the Soviet Union may mean that the strategic significance of the Kurile island barrier is less compelling for the Soviet civilian leadership—all the more so because domestic economic conditions demand bold steps to secure help from abroad.

TRADE, INVESTMENT AND TECHNOLOGY

Expanding trade and joint investment with Japan is an important part of the Soviet Union's current strategy of increasing economic ties with the outside world to improve the quality of Soviet technology and the living standards of Soviet citizens. Statements by Soviet officials leave little doubt that Japan's role is especially crucial for Siberia, a vast area of immense but unrealized potential. Gorbachev's 1986 speech in Vladivostok and his 1988 address in Krasnoyarsk highlight the importance assigned to greater economic dealings with the Pacific region in general and with Japan in particular.⁸ The same motive underlies other steps: the promulgation in 1987 of legislation on joint investment and the liberalization of the terms of investment in 1988; the announcement in 1988 that two Chinese-style special economic zones are to be created in Soviet Asia; and the Soviet Union's application in 1986 to join the Asia-Pacific Economic Cooperation Council.

What have been the results so far? While there has been some movement, Soviet sources express dismay at both the pace at which commercial contacts with Japan are growing and the scale of agreements that have been reached. Trade with the

Soviet Union is a mere 1.5 percent of all Japanese exports and imports; the volume is comparable to Japan's trade with tiny Singapore. According to Soviet figures, in 1982 the volume of Soviet-Japanese trade stood at 3.7 billion rubles; by 1987 it had fallen to 2.6 billion rubles. Japan fell from third to sixth place in the ranking of top Soviet trading partners in the developed capitalist world. As for joint ventures, 13 had been formed by the end of 1989, but the total value amounted to only \$47 million. They are generally modest, mundane undertakings: lumber processing, hotel construction and management, the building of sports centers and fisheries. There have been no major agreements on large, high-technology enterprises that are of particular interest to the Soviet Union. Future ventures are not much more promising.

There are several explanations for the lack of rapid progress in Soviet-Japanese economic relations and the unlikelihood of dramatic change. First, the territorial dispute limits Japanese enthusiasm; it has been identified by the Japanese as a major obstacle to the expansion of commercial transactions with the Soviet Union. The Japanese government will not encourage, let alone guarantee or subsidize, major investments in the Soviet Union by Japanese firms without Soviet concessions on the territorial issue. Second, the Japanese do not want to be perceived by the United States as rushing into major economic dealings with the Soviet Union lured by profit and unmindful of security risks—especially in the aftermath of the 1987 controversy in United States-Japanese relations created by the export to the Soviet Union of sensitive military technology by Toshiba Machine.

Third, it is no longer urgent for Japan to invest in Siberian raw materials to secure additional and nearby sources of supply. World energy prices fell in the 1980's, and the fear that producers of raw materials (other than oil) would form cartels has proved baseless. Furthermore, the Japanese economy is now much more efficient in its energy use, and the expanded role of Japan's service sector has further reduced the preoccupation with raw materials. Fourth, the Soviet Union will be hard pressed to stave off persistent trade deficits with Japan. The Soviet Union hopes to attract Japanese investments in modern, export-oriented manufacturing industries and not chiefly in raw material projects. Apart from raw materials, the Soviet Union has little that

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⁸For the text of the Vladivostok speech, see *Pravda*, July 29, 1986, pp. 1-3, translated in *Current Digest of the Soviet Press*, August 27, 1986, pp. 1-9. For the foreign policy portion of the Krasnoyarsk address, see *News and Views of the U.S.S.R.* (Washington, D.C.), September 19, 1988, pp. 1-11.

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"If properly handled, the establishment of diplomatic ties between Japan and North Korea could contribute to the stability of the Korean peninsula by facilitating 'cross recognition' of the two Koreas by the major powers. However, Japan's failure to pay adequate attention to South Korea's security interests in seeking rapprochement with North Korea could undermine not only friendly relations with South Korea, but also the existing balance of power on the Korean peninsula."

Japan's Relations with North Korea

BY HONG NACK KIM

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THE signing of the Korean-Japanese Normalization Treaty in 1965 set the framework for Japan's postwar policy toward Korea. In the treaty, Japan recognized the government of the Republic of Korea (South Korea) as the "sole legal" government of Korea. Japan agreed to extend \$800 million in economic assistance to South Korea, including \$300 million in grants, \$200 million in government-administered soft loans and \$300 million in private credit. Japanese-South Korean relations have steadily improved since then, with many Japanese leaders believing that Japan's security depends on South Korea's.

In stark contrast to the improvement in relations with South Korea since 1965, Japan's relations with North Korea remained uncompromisingly rigid until 1990. After Japan and South Korea normalized relations in 1965, the Japanese government ruled out diplomatic relations with North Korea and limited Japanese contacts with it.¹ Except for a modest amount of trade carried out by private Japanese firms, there were few contacts between the two countries. Japan's Korea policy thus reflected the strong influence of the United States, which has guaranteed South Korea's security while not recognizing North Korea.

The Japan Socialist party spearheaded a movement to normalize Tokyo-Pyongyang relations beginning in 1971, but there was no real progress. Instead, the bilateral relationship began to deteriorate in the late 1970's because of developments like increasing Japanese-South Korean political and economic cooperation and Pyongyang's inability to pay for trade debts totaling 80 billion yen.² Beginning in 1983, North Korea did not repay its trade debts to

Japan; then, in 1986, the Japanese government suspended its trade insurance program for North Korea. The suspension restricted Japanese-North Korean trade by forcing Pyongyang to trade with Japan on a strictly cash basis.

During the 1980's, Japanese-North Korean relations were further exacerbated by North Korean terrorist attacks against South Koreans, which prompted Japan to undertake punitive measures. Japan imposed sanctions against North Korea in retaliation for Pyongyang's bomb attack in Rangoon, Burma, in October, 1983, which killed 17 prominent South Korean leaders, including 4 Cabinet members. The sanctions were lifted in January, 1985, but Japan imposed similar sanctions after North Korean agents planted a bomb aboard a Korean Airlines airplane in 1987, killing 115 people. Although Japan lifted the second set of sanctions in September, 1988, further Japanese-North Korean contacts were curtailed.

The deterioration in Japanese-North Korean relations in turn complicated Japan's attempts to gain the release of two Japanese seized by North Korea in November, 1983, for alleged espionage. The captain and chief engineer of the Japanese ship *18th Fujisanmaru* were arrested for helping a North Korean stowaway, Min Hong Ju, flee to Japan in October, 1983. A North Korean court sentenced them to 15 years in prison. Japanese diplomats negotiated with North Korean officials to gain the release of the two crewmen, but Pyongyang refused to release them unless Japan agreed to repatriate Min to North Korea. Japan refused the North Korean demand, since Min clearly sought political asylum in Japan.

Japan proposed opening a dialogue with North Korea in the summer of 1988 on condition that North Korea release the Japanese crewmen. North Korea rejected this offer and accused Japan of conspiring to perpetuate the division of the Korean peninsula into two Koreas.³ Nevertheless, to ease tensions with Pyongyang, Japanese Prime Minister

¹For a detailed analysis see Hong N. Kim, "Japan's Policy toward North Korea since 1965," *Korea and World Affairs* (Seoul), Winter, 1983, pp. 657-658.

²Hiroko Kawai, "North Korean 'Open Policies' and Trade with Japan," in Masao Okonogi, ed., *North Korea at a Crossroads* (Tokyo: Japan Institute of International Affairs, 1988), p. 148.

³Seung Kun Ko, "Japan and South Korea's New Nordpolitik," *Asia Pacific Review*, Spring, 1990, p. 15.

Noboru Takeshita lifted sanctions against North Korea and issued entry visas for a high-level North Korean Workers party (Communist party) delegation to visit Japan in January, 1989.

On January 20, 1989, the Japanese Ministry of Foreign Affairs issued a statement indicating Japan's willingness to negotiate with North Korea without any preconditions. North Korea turned down the offer and renewed its denunciation of Japan's "hostile" policy toward Pyongyang, demanding that Japan pay reparations to North Korea for the suffering caused by Japan's colonial rule from 1910 to 1945.

On March 30, 1989, Prime Minister Takeshita expressed "deep remorse and regret" to Koreans in both South and North Korea for Japan's past actions on the peninsula and reiterated Tokyo's desire to improve relations with the "Democratic People's Republic of Korea."⁴ This was the first time a Japanese Prime Minister had called North Korea by its official title. Takeshita's statement was warmly received in Pyongyang. North Korean President Kim Il Sung said that "some Japanese officials are making positive statements," and indicated his willingness to accept a proposed visit to Pyongyang by a Japanese Liberal Democratic party (LDP) delegation headed by former Deputy Prime Minister Shin Kanemaru in September, 1989.⁵ But the collapse of the Takeshita government in May, 1989, as a result of the Recruit scandal derailed this diplomatic initiative.*

RENEWED RELATIONS IN 1990

It was not until the summer of 1990 that Japan and North Korea began to show renewed interest in improving bilateral relations. On July 24, North Korean Deputy Prime Minister Lee Chong Ok informed the Japan Socialist party vice chairman, Wataru Kubo, that his government would welcome a joint visit to Pyongyang by the Japan Socialist party and the LDP in September, 1990.

North Korea's sudden interest in improving relations resulted from several factors. First, Pyongyang realized that it must deal with Japan's ruling party after the LDP rebounded from the political crisis triggered by the Recruit scandal, winning a comfortable majority in the House of Represen-

tatives elections in February, 1990. Initially, North Korean leaders had believed that the LDP government would be replaced by a Socialist-led coalition government when the LDP suffered a stunning defeat in the upper house election in the Diet in July, 1989.

Second, North Korea was shocked by the summit conference between Soviet President Mikhail Gorbachev and South Korean President Roh Tae Woo in San Francisco on June 4, 1990. The conference signaled that Seoul and Moscow would soon establish diplomatic relations, prompting Pyongyang to seek rapprochement with Tokyo in order to compensate for the progress in Soviet-South Korean relations.

Third, North Korea desperately needed foreign capital and technology to revitalize its stagnant economy. The North Korean economy was estimated to be growing at a rate of only 2 percent annually. However, it could not count on its traditional allies in the economically troubled Soviet Union and East European countries for assistance. China remained a close North Korean ally but it too was experiencing economic difficulty. Under the circumstances, acquiring Japanese capital and technology was the best available option.

Japan reacted favorably to Pyongyang's overtures. In a statement before the Diet on June 15, 1990, Prime Minister Toshiki Kaifu declared that he would like to make "contact with North Korea without any preconditions attached."⁶ He also expressed the hope that the proposed trip to North Korea would take place as soon as possible.

There were several reasons for Japan's positive reaction. Like North Korea, Japan was shocked by the Soviet-South Korean summit meeting; it had not expected such a sudden breakthrough in Soviet-South Korean relations. Moreover, during his state visit to Japan on May 24-26, 1990, South Korean President Roh did not inform Prime Minister Kaifu of the scheduled meeting. Although the Japanese government officially welcomed the meeting, it was unhappy about not being informed beforehand.

Japanese leaders also felt upstaged by South Korea's diplomatic initiative with the Soviet Union. This was understandable because Japan had not made much progress toward signing a peace treaty with the Soviet Union. To counter South Korea's diplomatic coup, the Japanese felt it necessary to make an equally arresting move. In this respect, mending fences with North Korea was seen as crucial, since it would resolve the remaining issue arising from Japan's defeat in World War II. North Korea is the only country in the region with which Japan has not had diplomatic relations in the post-war period. Japan hoped it could maintain diplo-

*Editor's note: The Recruit scandal involved the sale to prominent politicians of unlisted shares in the Recruit Cosmos real estate company, which was about to go public, in exchange for political influence. Because of the scandal, Noboru Takeshita was forced to resign as Prime Minister in May, 1989; former Prime Minister Yasuhiro Nakasone was also implicated in the scandal as an indirect purchaser of the stock.

⁴*Asahi Shimbun* (Tokyo), March 31, 1989.

⁵*Asahi Shimbun* (evening edition), April 4, 1989.

⁶Shinichi Hen, "Kaifu vs. Roh Tae Woo no 'kokusai Seijiryoku' o tou," *Hoseki* (Tokyo), September, 1990, p. 113.

matic ties with both North and South Korea, which would put it in a more advantageous position vis-à-vis other major powers.

Japanese conservative leaders believed that contacts between Japan and North Korea would allow North Korean leaders to acquire a more realistic picture of the outside world and facilitate the process of "cross recognition" of the two Koreas by the major powers. They also believed that inducing North Korea to participate in the international community was a more prudent way of reducing tensions on the Korean peninsula than isolating the Pyongyang regime. Their position became stronger as the cold war era came to an end.

To facilitate the proposed visit, a joint Liberal Democratic-Japan Socialist party preparatory group went to Pyongyang in early September, 1990. The delegation's main purpose in making the trip was to ascertain North Korean intentions regarding the release of the two Japanese crewmen and the feasibility of exchanging liaison offices. Pyongyang made it clear that the outstanding issues between the two countries could be settled if Japan apologized for its colonial rule of Korea and offered adequate compensation. Since the LDP leaders were willing to accept Pyongyang's demands, the path was cleared for the visit.

The official Liberal Democratic-Japan Socialist party delegation arrived in Pyongyang on September 24, 1990, accompanied by 10 Japanese government officials. At the first session, Kim Yong Soon, the Korean Workers' party (KWP) secretary for international affairs, emphasized the importance of a Japanese apology and compensation for colonial rule; he also emphasized Japanese responsibility for the "abnormal relations" between Japan and North Korea in the postwar period. If these issues could be resolved to North Korea's satisfaction, he said, other issues would be settled expeditiously.

At a banquet held on the day of the delegation's arrival, Shin Kanemaru, the LDP delegation leader, apologized for the "intolerable sufferings and hardships" experienced by the Korean people under colonial rule. Kanemaru also carried with him a letter of apology from Prime Minister Kaifu addressed to President Kim Il Sung. Kanemaru declared that "Japan is responsible for resolving the compensation issue whether or not the two nations have diplomatic relations."⁷ He also told Kim Yong Soon that Japan should provide some compensation to North Korea even before the two countries opened formal diplomatic relations.

In a meeting with the Japanese delegation, Kim Il Sung indicated his desire to improve relations with Japan. He proposed inaugurating air links

with Japan and extended an invitation to the LDP to send representatives to the October 10 celebrations marking the forty-fifth anniversary of the founding of the ruling Korean Workers' party. Kim appreciated Kaifu's gestures, including the letter delivered by Kanemaru, and promised to release the two Japanese crewmen. At Kim's invitation, Kanemaru stayed overnight at the mountain resort of Myohyangsan to hold two more rounds of talks. Although Kanemaru told reporters afterward that he and the North Korean President discussed mainly international affairs, the contents of their talks are still shrouded in mystery because no Japanese interpreter was allowed to attend.

Kanemaru's initial goal during the visit was to seek an exchange of liaison offices between Tokyo and Pyongyang. However, he revised his plan drastically when a senior North Korean diplomat proposed holding bilateral talks without any preconditions to normalize diplomatic relations. The proposal shocked the Japanese ministerial officials, who had not expected such a drastic policy change.

Kim Yong Soon also proposed that in November, North Korea and Japan should open negotiations to normalize diplomatic relations. He explained the policy change by saying that it was due to rapid changes in the international situation and Japan's reported refusal to consider making reparations to North Korea without bilateral government-level negotiations for the establishment of diplomatic ties.

After a series of discussions, the Japanese delegation issued a joint declaration with the Korean Workers' party on September 28, 1990. In the eight-point declaration, the parties urged Japan to apologize "for the unhappiness and suffering caused to the Korean people during the 36 years of colonial rule." They agreed that Japan should compensate North Korea not only for the damage caused during colonial rule but also for the "losses suffered by the Korean people in the 45 years" since the end of World War II. The declaration stipulated that the delegations would urge their respective governments to initiate diplomatic talks in November, 1990, to work toward establishing diplomatic ties as soon as possible, and called for Japan and North Korea to set up satellite communications links and inaugurate direct flights. Moreover, the declaration committed Japan to removing a provision in the Japanese passport stating that the passport was not valid in North Korea. The signatories acknowledged that "there is only one Korea" and called for peaceful reunification of North and South Korea.

Although it was not part of the joint declaration, North Korea agreed to release the two detained Japanese in October, 1990. They were finally allowed to return to Japan with LDP Secretary

⁷*Japan Times* (Tokyo), September 26, 1990; see also *Asahi Shimbun*, September 29, 1990.

General Ichiro Ozawa and the Japan Socialist party leader, Takako Doi. To secure their release, Ozawa and Doi had to promise that the crewmen would not speak out against Pyongyang after their return to Japan.

JAPANESE REACTIONS

The LDP and the Japan Socialist party hailed the joint declaration; they were joined by the Komeito (Clean Government party) and the Democratic Socialist party. Some influential Japanese leaders and the media, however, were highly critical of Kanemaru for his handling of the compensation and other related issues. Although they acknowledged his role in bringing about a breakthrough in Japanese–North Korean relations, they were unhappy about his “excessive” accommodation to North Korean demands.

Several Japanese leaders and the Ministry of Foreign Affairs were also critical of Kanemaru's acceptance of Pyongyang's compensation demand and opposed offering compensation at all. They believed that Japan was neither legally responsible for the “abnormal relations” between Japan and North Korea in the postwar period nor legally obligated to offer compensation. Many Japanese believed that the “abnormal relations” were created by international circumstances like the cold war, which were beyond Japan's control. They also believed that North Korea should share more of the blame for the poor state of relations because the deterioration was caused by Pyongyang's unfriendly attitude.

South Korea and the United States voiced concern about the terms and conditions of the proposed normalization of relations between Tokyo and Pyongyang. South Koreans are apprehensive because of the risks normalization poses for their national security. If Japan provides massive compensation and economic assistance to North Korea, and if the money is used to upgrade North Korea's conventional military capability, the existing balance of power on the Korean peninsula could change. The United States shares this concern.

Seoul and Washington also worry that Japanese compensation could be funneled into North Korea's nuclear weapons development program. The United States and South Korea have requested that Japan insist on North Korea's entry into a nuclear safety agreement with the International Atomic Energy Agency (IAEA). Japan has agreed to take up the issue with Pyongyang during the normalization talks. However, Pyongyang has refused to sign an agreement with the IAEA unless the United States pledges not to use nuclear weapons against North Korea.

The Japanese–North Korean normalization talks are likely to be protracted because of serious disagreements on several issues that arose during the three rounds of preliminary talks held in Beijing from November 3 to December 17, 1990. The first issue was the North Korean demand to include discussion of Japanese reparations on the agenda of full-scale normalization talks; the second issue was Japan's demand that the question of opening North Korea's nuclear facilities to international inspection be on the agenda.

Throughout the preliminary talks, Japan maintained that it would not discuss North Korea's “losses” in the post-World War II period, although it was willing to discuss compensation for the period of colonial rule. North Korea insisted, however, that reparations also cover the postwar period. The reparations demand will be taken up later as part of “various economic problems involved in the normalization of Japanese–North Korean diplomatic relations.” At a press conference at the conclusion of the talks, the chief Japanese negotiator, Sakutaro Tanino, pointed out that the September 28 joint declaration by the Japanese and North Korean political parties was not legally binding.⁸

North Korea objected to Japan's demand that it open its nuclear facilities to inspection on the grounds that it was not a proper question for the normalization talks. In the final session of the preliminary talks, however, Pyongyang agreed to include the nuclear inspection issue in exchange for Japanese concession on the inclusion of postwar compensation.

The first session of the full-scale normalization talks took place in Pyongyang on January 30–31, 1991; the second session was held in March, 1991, in Tokyo; and the third and subsequent sessions in Beijing. But it is likely to take six months to a year to complete the negotiations in view of continuing disagreements. Furthermore, talks are likely to drag on because there remains a substantial perception gap between Tokyo and Pyongyang concerning the proper amount of compensation (or “reparations,” according to North Korea). The Japanese Ministry of Foreign Affairs will reportedly offer \$500 million, the same amount it offered South Korea in 1965; but sources close to North Korea believe Pyongyang will demand more than \$5 billion, arguing

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⁸ *Yomiuri Shimbun* (Tokyo), December 18, 1990.

Toshiki Kaifu became Japan's Prime Minister "largely by accident," writes this author. He has survived politically mainly by luck, since his government is "fundamentally fragile and vulnerable because of its extremely narrow and shallow support base" within the ruling Liberal Democratic party.

The Kaifu Government Teeters On

BY HARUHIRO FUKUI

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As Japan enters the second year of Emperor Akihito's reign, Prime Minister Toshiki Kaifu's government faces falling popularity ratings, controversial and dangerous policy issues, and a very uncertain future. It will probably survive until October, 1991, when Kaifu's first two-year term as the leader of the Liberal Democratic party (LDP) expires. In order to earn a second term, however, he will need a good deal of political savvy, precious little of which he has shown so far, as well as luck, which he has in great abundance.

It was luck more than anything else that made Kaifu LDP president and Japanese Prime Minister in August, 1989. Kaifu came to power in the wake of the Recruit scandal and Prime Minister Sosuke Uno's resignation.* The Recruit scandal not only cost Uno's predecessor, Noboru Takeshita, his leadership of the ruling party and the government but also reduced substantially the ranks of Takeshita's potential successors. The most hopeful among them, like former Finance Minister Kiichi Miyazawa, LDP secretary general Shintaro Abe and LDP policy board chairman Michio Watanabe, were all tainted by the scandal; as a result, one of the least promising, Uno, was chosen in June, 1989, to preside over the deeply wounded

party and head a caretaker government until public outrage over the scandal dissipated.

No sooner had Uno been chosen as LDP leader and Prime Minister, however, than he became enveloped in a sex-for-money scandal, followed by the LDP's unprecedented defeat in the July, 1989, House of Representatives (the Diet's lower house) election.¹ Uno thus gave up his post in two months instead of two years. The party then turned to Kaifu, a junior politician from the smallest LDP faction and an even more unlikely candidate than Uno, but a leader who, unlike many others, had no known record of involvement in a scandal.

Kaifu faced and passed the first major test of his leadership in late January, 1990, when he dissolved the House of Representatives and called a general election on February 18, which the LDP won.² Kaifu's personal credibility and popularity contributed significantly to the LDP's impressive comeback. Two other factors helped as well; first, a substantial decrease in voter dissatisfaction with the newly introduced consumption (sales) tax, the partial liberalization of agricultural imports, and the Recruit scandal; and, second, continuing disarray among the opposition parties and fratricidal competition among their candidates.

The electoral success enabled Kaifu to reject demands by Recruit-tainted senior LDP politicians for appointments to Cabinet posts when he reshuffled his original Cabinet immediately after the February election. This well-publicized defiance of old-guard conservative politicians reinforced Kaifu's reputation as an honest, principled politician and helped his popularity ratings steadily climb to a record level of more than 60 percent by August, 1990.³ The Prime Minister's soaring popularity helped the LDP regain much of the self-confidence it had lost in the first seven months of 1989. A relatively amicable relationship between the opposition and the LDP during the 1989-1990 Diet session added luster to Kaifu's leadership. Even more important for Kaifu was the remarkably smooth progress of the June, 1990, Tokyo-Washington Structural Impediments Initiative (SII) negotiations.

*Editor's note: The Recruit scandal involved the sale to prominent politicians of unlisted shares in the Recruit Cosmos real estate company, which was about to go public, in exchange for political influence. Because of the scandal, Noboru Takeshita was forced to resign as Prime Minister in May, 1989; former Prime Minister Yasuhiro Nakasone was also implicated in the scandal as an indirect purchaser of the stocks.

¹The LDP held 108 seats and the four major opposition parties held 129 of the 252 seats in the upper house (the House of Councillors); the remainder were shared by a few minor parties and independents. See *Asahi Shimbun*, July 25, 1989; *Kokkai benran* [Diet Handbook], 81st ed. (Tokyo: Nihon seikei shimbunsha, August, 1989), p. 82.

²The LDP won 286 of the 512 lower house seats, as compared with 304 in 1986. The Japan Socialist party won 140 seats, compared with 86 seats in 1986.

³The results of *Nihon Keizai Shimbun* and *Yomiuri Shimbun* polls showed a phenomenal rise in Kaifu's support from less than 30 percent of the respondents in August, 1989, to more than 50 percent in June, 1990. See *Nihon Keizai Shimbun*, June 25, 1990; *Yomiuri Shimbun*, June 21, 1990.

Factions in the Japanese Diet (Parliament)

Faction Leaders	Faction alignment in August, 1989		Faction alignment in February, 1990		Faction alignment in December, 1990	
	Members in the Diet	Members in Kaifu's Cabinet	Members in the Diet	Members in Kaifu's Cabinet	Members in the Diet	Members in Kaifu's Cabinet
Taskeshita	106	6	107	6	107	7
Abe	83	5	87	6	87	6
Nakasone/Watanabe*	80	5	65	4	65	4
Miyazawa	78	5	84	5	84	5
Komoto	30	2	33	2	33	1

*Leadership of this faction fell to Michio Watanabe after Nakasone was implicated in the Recruit scandal.

These negotiations took place against the backdrop of deteriorating United States congressional and public sentiment toward Japan.⁴ Kaifu also faced growing domestic opposition to United States demands, which had been spelled out to him during summit talks with United States President George Bush in March, 1990.⁵ Kaifu muffled much of the Japanese opposition to these demands by saying that they were consistent with the need to improve the "quality of life" for the majority of Japanese and, therefore, were in Japan's own interest.

In the SII negotiations, the United States requested that the Japanese government spend more on public works. The Kaifu government quickly put together a public works spending plan that satisfied many influential domestic groups—bureaucrats in government ministries who would design public works projects and act as custodians for government funds; local governments that would spend these funds; builders who would bid for and receive windfall contracts; and politicians who would receive part of those builders' profits as campaign contributions.⁶

The Kaifu government is fundamentally fragile and vulnerable because of its extremely narrow and

shallow support base within the LDP. Traditionally, an LDP leader's most reliable support base has been his intraparty faction. The larger the faction, the more secure his position and, in the long run, the more effective his leadership tends to be. The Toshio Komoto faction, from which Kaifu hails, however, is the smallest of the five major LDP factions; in mid-1990 it had just 33 affiliates among the LDP members of the two houses of the Diet. In contrast, former Prime Minister Takeshita's faction had 107 affiliates, LDP Secretary General Abe's faction had 87, former Finance Minister Miyazawa's faction had 84, and LDP policy board chairman Watanabe's faction had 65 (see the table above for faction alignments in the Diet since Kaifu was elected).

Kaifu may have become LDP leader and Prime Minister largely by accident, but he could not have done so without the powerful support of the Takeshita faction.⁷ Nor can he remain the LDP leader and the Prime Minister without that faction's continuing support. Kaifu has also been helped by the fact that not only is the Takeshita faction the largest of the five intraparty groups, but the leaders of its three rival factions, Abe, Miyazawa and Watanabe, are still tainted by their involvement in the Recruit scandal and are thus unable to make a bid for the prime ministership. (Abe, moreover, is seriously ill with "inflammation of the pancreas," which is probably cancer.)

Kaifu's vulnerability can be seen from the manner in which he has chosen the members of his Cabinets. He has reshuffled his Cabinet at short intervals and has appointed Cabinet members so that the five major factions will allow his leadership to continue.

Each time Kaifu has reshuffled his Cabinet, however, he has barely managed to resist pressure from one faction or another for a change that might threaten the survival of his government. Before the first Cabinet reshuffle in February, 1990, for example, the Watanabe faction pressed hard for the appointment of Takayuki Sato, a member implicated

⁴The results of a *Los Angeles Times* poll, as reported in the Japanese press, showed a decline in the number of Americans with friendly feelings toward Japan, from 70 percent in 1987 to 56 percent in 1990. See *Tokyo Shimbun*, September 19, 1990.

⁵The American demands called for Tokyo's prompt action in six areas: the savings-investment imbalance, the distribution system, land-use policy, interlocking business ties (*keiretsu*), exclusionary business practices and pricing mechanisms. See *Nihon Keizai Shimbun*, June 29, 1990.

⁶The Kaifu government planned to spend some ¥450 trillion, nearly \$3 trillion, on public works projects like housing, roads, sewer systems, parks, airports and harbors over the next 10 years.

⁷The Takeshita faction was divided and unable to agree on a candidate of its own and, as a result, the faction's top leaders, led by Takeshita and Deputy Prime Minister Shin Kanemaru, swung their support behind Kaifu in the hope that he would serve only one two-year party presidential term and then yield his position to a Takeshita faction candidate. See *Asahi Shimbun*, August 1, 1990.

in the Lockheed scandal of the mid-1970's.** Kaifu refused, but only after giving the key position as minister of international trade and industry to another Watanabe faction member. In a December, 1990, reshuffle, Kaifu faced a forceful demand from the Abe faction to replace Foreign Minister Taro Nakayama. Kaifu successfully resisted and reappointed Nakayama, but had to give one of his own faction's only two posts to the Abe faction.

DOMESTIC ISSUES

The succession of LDP governments since 1955 has been facilitated by an economy that has continued to register impressive and, except for a few crisis years in the 1970's, consistently high growth rates for more than three decades. The Kaifu government is no exception; its effort to win and retain domestic support has been made easier by an economy that has experienced an uninterrupted boom for 50 months. The boom, however, appears to be losing steam, and the growth rate of the gross national product (GNP) is likely to fall from the 5 percent average for the period between 1987 and 1990 to 3.5 percent in 1991.⁸ A precipitous fall in average stock prices as measured by the Nikkei stock market index, from nearly 39,000 yen (Y) at the end of 1989 to about Y24,000 one year later, a loss of nearly 40 percent, reinforces widespread pessimism about the immediate if not the long-term economic future.

The stock price collapse, which resulted from the inevitable bursting of an overblown speculative bubble, was less important politically than the government's inability to deal effectively with the high price of urban land. A low-interest policy pursued by the Bank of Japan during most of the 1980's led to an unprecedented boom in metropolitan real estate markets, first in and around Tokyo and more recently in Osaka, Kyoto and other urban areas.⁹ In the years between 1980 and 1989, the average price of land within the boundaries of Japan's six largest cities more than tripled. During this period, the price of a parcel of land in a prime downtown Tokyo neighborhood rose to about Y24,000 (\$160)

**Editor's note: It was revealed in 1976 that the Lockheed Corporation, a United States aeronautics company, used bribery to sell its Tristar airplane in Japan. Senior Japanese government officials, officials of Lockheed's Japanese subsidiary and many members of the LDP were charged with bribery, tax evasion and corruption in connection with the sale. As a result of the scandal, Prime Minister Takeo Miki resigned as Prime Minister in December, 1976, and former Prime Minister Kakuei Tanaka was found guilty of accepting bribes after a seven-year judicial proceeding that ended in October, 1983.

⁸*The Economist*, November 24, 1990, pp. 31-32; December 22, 1990, pp. 87-89.

⁹Tochi mondai kenkyukai [The land problem study group], ed., *Tochi mondai jiten* [Dictionary of the land problem] (Tokyo: Toyo keizai shimpusha, 1989), pp. 105-113.

per square meter, making it impossible for the average Japanese employee to buy even a modest house or apartment within less than a two-hour distance of central Tokyo; workers in Osaka and other metropolitan areas face the same commuting challenge.

The growing inequality between those who own property in a metropolitan area and those who do not has been a hotly debated political issue. The Kaifu government is under strong public pressure to resolve the issue, but it faces a formidable and probably insurmountable obstacle—determined opposition by entrenched interests to any proposal that could lead to substantial reductions in property values. The strength of this opposition was demonstrated during the government's recent effort to introduce a new land tax to force owners of large and idle urban properties to sell them. The Ministry of Finance originally proposed introducing a land tax at a rate equal to 1 percent of the market value of a property, but quickly reduced it to 0.7 percent when a group of LDP politicians objected. Next, the Cabinet Tax System Council proposed a new "land-holding tax" without specifying a particular rate, obviously for fear of opposition. The LDP Tax System Council then proposed a 0.5 percent tax, but the plan was vetoed by the LDP's own policy board. Finally, the LDP council scrapped its original plan and proposed a "land-value tax" of 0.2 percent of each property's "assessed" value in 1992 and of 0.3 percent starting in 1993.

This last plan may prove viable, but only because it is innocuous. The assessed value of a property is estimated to be no more than half its market value, so a 0.2 percent tax rate is therefore no more than 0.1 percent of the effective value. Moreover, properties of less than 1,000 square meters that are owned by individuals, as well as all publicly owned land and corporate-owned land assessed at less than Y1 billion per parcel, are exempt.

FOREIGN RELATIONS

Japan's trade gap with the United States remains large and continues to fuel acrimonious disputes between Tokyo and Washington. In particular, it sustains American demands for at least a partial opening of Japan's rice market to imports, a demand that has so far failed to change Japan's official policy of not compromising on this issue of "economic national security." Unofficially, several Japanese politicians have called for a change in policy, allowing limited rice imports equal to less than 10 percent of Japan's 10-million-ton yearly consumption.

These politicians still constitute a minority and their views provoke public, though not necessarily private, protests from a majority of LDP and op-

position Diet members. In a series of unanimous Diet resolutions and election-eve commitments to farm organizations, the majority has pledged its unwavering support of the official policy of "total self-sufficiency" in rice.¹⁰ The issue remains highly volatile and divisive, and Kaifu is not likely to take it up soon. Japan's failure to act on it will continue to frustrate and anger Washington and may well threaten Kaifu's apparently close and cordial relationship with President Bush, a relationship on which he depends for his still shaky reputation as an effective leader.

The war in the Persian Gulf has put greater strains on relations between Japan and the United States; it poses the greatest foreign threat to the survival of the Kaifu government. Kaifu was obviously unprepared for the outbreak of war and proved indecisive in a moment of crisis, unable to lead his party and nation on a consistent course of action. When the United States reacted to Iraq's invasion of Kuwait by sending troops to the Persian Gulf, it asked Japan for a contribution of \$1.5 billion to help defray the cost of the operation. Japan's Ministry of Foreign Affairs recommended an offer of \$1.2 billion. The Ministry of Finance insisted on giving no more than \$500 million. Kaifu could not decide which recommendation to follow, and on August 29, he promised Washington a financial contribution of an unspecified amount. A telephone call to Kaifu from President Bush led to hasty consultation with Finance Minister Ryutaro Hashimoto and the announcement the next day of a contribution of \$1 billion. This contribution failed to satisfy the President, so Kaifu spent two weeks trying to persuade the Finance Ministry to approve additional contributions worth \$3 billion. As far as President Bush was concerned, however, even this amount proved to be too little, too late.

Continuing pressure from the United States led Kaifu to attempt another, much bolder, form of Japanese involvement in the peacekeeping efforts of the United Nations-sanctioned multinational force in the Persian Gulf. Kaifu asked the Cabinet Legislation Bureau to draft a bill allowing Japan to send a small group of Japanese civilians to the Middle East under the auspices of a United Nations peace and cooperation corps. The original draft called for the corps to be composed largely of civilian volunteers and only a few if any members of the Self-Defense Forces (that is, military personnel). The final draft

was transformed under pressure from the Defense Agency and hawks in the LDP, notably Secretary General Ichiro Ozawa, into a draft giving a prominent role to a much larger number of uniformed and armed members of the Self-Defense Forces. This became an explosive constitutional issue and virtually guaranteed the fierce opposition of the Japan Socialist party and the Japan Communist party, and the more conservative Komeito (Clean Government party) and the Democratic Socialist party. As it turned out, both Komeito and the Democratic Socialist party, and a minority in the LDP, joined the Japan Socialist party and the Japan Communist party in opposing the bill and forced Kaifu to withdraw it during a special Diet session called in mid-October, 1990.

Kaifu's handling of the issue dramatized his indecision, poor judgment and, above all, lack of leadership. In a *Nihon Keizai Shimbun* poll taken in October, support for the Kaifu government fell for the first time since the summer of 1989, from 52 percent in June to 46 percent, while support for the opposition grew from 24 percent to 31 percent.¹¹ Without the Takeshita faction's continuing support and the opposition's inability to mount a concerted campaign to drive him from power, Kaifu might have been forced to resign in the wake of the fiasco.

THE OPPOSITION IN DISARRAY

The Japan Socialist party made spectacular gains in the 1989 upper house and 1990 lower house elections. It owed these gains in large measure to the Recruit scandal, the consumption tax and debates about increasing agricultural imports. These issues turned many voters, especially housewives, small businessmen and farmers, against the LDP. The Socialist party's impressive electoral performance, however, was also a result of its bold departure from the doctrinaire Marxism that had condemned it to virtual political irrelevance in the eyes of most voters.

Since January, 1985, when the party adopted a new official party line, and especially since September, 1986, when it elected Takako Doi, who became the first woman leader of a major party in Japanese history, the party has transformed itself into a much more pragmatic, flexible and dynamic rival of the LDP.¹² It no longer advocates the immediate dissolution of the Self-Defense Forces and the

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¹⁰Such Diet resolutions were adopted in 1980, 1984 and 1988, and similar election-eve commitments were made, most recently, before the February, 1990, general election.

¹¹*The Japan Times* (international weekly edition), October 22-28, 1990.

¹²For relevant comments, see Haruhiro Fukui, "Japan in 1987," *Asian Survey*, vol. 28, no. 1 (January, 1988), pp. 29-30.

Haruhiro Fukui's current publications include two chapters in Robert H. Taylor, ed., *Handbooks of the Modern World: Asia and the Pacific* (New York: Facts on File, 1990), and entries on Japan in *The Encyclopedia Americana* (Danbury, Conn.: Grolier, forthcoming).

"The Japanese are now among the richest people on earth. Yet the average Japanese consumer does not have a sense of affluence commensurate with his nation's economic power. The average person's material lot has visibly improved, but the quality of life remains less than satisfactory."

Japan's Economic Dynamism

BY ROBERT S. OZAKI

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At the end of 1989, Japan's gross national product (GNP) stood at \$2.85 trillion, accounting for 12 percent of world GNP; its per capita GNP of \$23,300 exceeded that of the United States; and the country was the world's largest creditor nation, with net external assets of \$300 billion.¹ In the same year, Japan also became the world's largest donor, providing \$9 billion in official development assistance.

November, 1990, marked the forty-seventh consecutive month of economic expansion in Japan, notwithstanding jitters on the Tokyo Stock Exchange. Five percent growth with basic price stability continued. Department stores and large retailers registered record sales in 1990, especially of high-grade sophisticated products. There was a nationwide surge in construction.

The current boom as well as past performance show that Japan's economy is highly dynamic and efficient, promoting technological progress and restructuring smoothly without leaving behind pockets of unemployment in depressed industries. The main source of dynamic efficiency is the enterprise system that has evolved in postwar Japan, though this system is neither sufficiently recognized nor well understood by outsiders. Like the United States, Japan has a competitive market economy, but the way it works differs considerably from the workings of the United States economy.

The representative firm in Japan is a large, efficient company operating in a technologically advanced sector and practicing three principles: management-worker joint sovereignty; sharing; and interfirm competitive cooperation.

Management and workers make up an integrated group that strives to further the long-term profitability of the company. Through mutual holding of

stocks among affiliated firms, management is almost completely freed from intervention by outside capitalists; sovereignty lies not with shareholders but with those who work at a firm. Decision making among managers is consensual and participatory. Practically all executives and managers are promoted from within. Job rotation is routine, and everyone is trained to develop multiple skills.

There is an ethos of competitive egalitarianism in the Japanese firm; while workers compete for promotions, they and management share information as well as the benefits and costs of belonging to the firm. The gap between a top executive's salary and a production worker's wage is much narrower than in an American corporation. The firm operates under a variable wage system, with semiannual bonuses adjusted to profits. In hard times executive salaries are cut first. Remaining jobs are often shared among employees working shorter hours. Redundant workers may receive special training or they may be transferred within the firm or to an affiliated firm. Layoffs are the last resort.

The representative Japanese firm belongs to one of the country's six major enterprise groups, or coalitions of companies. Enterprise groups typical-

Leaders of Major Japanese Industry Groups and Their Subsidiaries

	Number of companies in group	Assets (in trillion yen)	Group shares as percentage of total share portfolio
Mitsubishi Corporation	529	7.7	44.8
Toyota Motor	168	5.3	68.9
Mitsui	640	4.9	62.1
Hitachi	224	3.3	68.2
Nissan	270	3.1	63.0
Nippon	180	3.0	29.8
Matsushita	435	2.9	77.5
Orix	77	2.8	76.1
Toshiba	246	2.7	74.2
NEC	188	2.4	65.7

Source: *Far Eastern Economic Review* (Hong Kong), June 20, 1990, p.50.

¹Unless otherwise cited, statistics in this article are taken from Bank of Japan, *Honpo Keizai Tokei* (Economic Statistics of Japan) (Tokyo, annual); Bank of Japan, *Kokusai Hikaku Tokei* (Comparative Economic and Financial Statistics) (Tokyo, annual); and Economic Planning Agency, *Keizai Hakusho* (Economic White Paper) (Tokyo, annual).

ly comprise a leading bank, a large trading company, a prime insurance firm, a big manufacturing concern, medium-size firms, and contractors and subcontractors in diverse industries. The Mitsubishi Group is an example. It includes Mitsubishi Bank; Mitsubishi Heavy Industries, producing automobiles, aircraft and the like; the Mitsubishi Corporation, its trading company; and many other companies not bearing the group name. The group affiliation is not permanently fixed; instead, it may flexibly change over time. Each enterprise group represents a vast network of technical, financial and personnel assistance. Fierce competition prevails among firms belonging to different enterprise groups, but firms affiliated with the same group often enter into long-term cooperative relationships for such purposes as development, quality improvement and research.

The result of all this is a vigorous and efficient enterprise system. Management can pursue a strategy of long-term growth in the absence of outside shareholders or corporate raiders crying for quick profits. Job security and the sharing of rights and responsibilities motivate workers and support technological progress. Close networking in personnel, finance and technology promotes innovation.

PROBLEMS IN PARADISE

The Japanese are now among the richest people on earth. Yet the average Japanese consumer does not have a sense of affluence commensurate with his nation's economic power. The average person's material lot has visibly improved, but the quality of life remains less than satisfactory because of several factors: the poor housing situation, long work hours, the high cost of living and astronomical land prices.

Approximately 1.5 million new homes are built each year, and there is no absolute shortage of housing; in fact, 8 percent of all houses are currently vacant. A majority of homes, however, are too small for a comfortable family life. The present average house size is 80 square meters, although this is expected to increase to 90 or 95 square meters in the next decade.

The Japanese work longer hours and take shorter vacations than their Western counterparts. In 1989 the average number of hours worked in manufacturing jobs was 2,100 in Japan, 1,900 in the United States, and 1,800 in West Europe.² Slowly, though, work hours are declining; they are anticipated to fall

²The difference between the Japanese and United States figures may in fact be narrower because the official Japanese statistics do not include moonlighting, which is common in the United States but not in Japan.

³Even at the current rate of exchange, not everything in Japan is more expensive than elsewhere. Eggs, chickens, automobiles, color televisions and videocassette recorders are generally cheaper in Japan than in the West.

to an average of 1,800 hours by the year 2000.

Because of government regulations, protectionism, cartels and the inefficiency of the distribution system, the cost of living in Japan is higher than in other advanced countries — 20 to 60 percent higher, depending on the baskets of consumer goods and services compared. If the rate of exchange were set in terms of purchasing power parity, the rate would be 180 to 200 yen to the dollar instead of the current 130 yen to the dollar.³

The Japanese government's land policy has been a spectacular failure. Japan is a small mountainous country the size of Montana, where more than 120 million people live and produce the world's second largest GNP; one would thus expect land value in Japan to be high. There are, however, other small industrialized and densely populated countries (the Netherlands, Belgium and Great Britain, for example) where land values are nowhere near the Japanese level. The price of land in Japan has been, to a large extent, artificially driven up by land laws, tax laws and financial practices that unduly protect farmland (even empty "farmland" in cities), keep down the supply of land and encourage real estate speculation.

Attempts at reform have failed and, given the tenacity of vested interests, no solution appears possible any time soon. The result is a country whose total land is today worth 4.6 times as much as that of the entire United States. Since Japan has only one-twenty-fifth the area of the United States, this means that the price of land per acre in Japan is 115 times higher than it is in the United States.

The runaway inflation in land prices has produced a serious inequity between landowners and those who do not own land in a nation that prides itself on having built an egalitarian postwar society. There is growing concern that unless something is done soon, Japan will become a neofeudal society where a significant portion of wealth, based mainly on land, is inherited rather than earned through hard work. Another concern is that astronomical land prices form a de facto barrier to foreign investment in Japan; foreign firms find land and office space prohibitively expensive.

CHARGES OF PROTECTIONISM

While Japanese consumers complain about the high cost of living, the United States has been intensifying its charges of protectionism. Economic relations between the United States and Japan continue to deteriorate. The latest United States complaint is that the whole Japanese "system" (business practices, distribution mechanisms, interfirm coalitions, government-business relations) is exclusionary and must change in order to eradicate the trade disequilibrium. But Japan already has a sub-

stantially open economy; experts on both sides agree that even if all remaining trade barriers are removed, it will at most result in an increase of between \$3 billion and \$4 billion in United States exports to Japan, only a medium-size dent in the annual \$50-billion trade deficit with Japan.

There are two ironies in the dispute. Japan is a formidably efficient industrial machine in spite of its remaining protectionism. If the United States brings down the barriers, the machinery will function yet more competitively and efficiently. Japanese exports to the United States may increase more than United States exports to Japan. Further, if Japan's trade surplus sharply declines at the insistence of the United States, less Japanese capital will be available to finance development and growth in the rest of the world, including the United States, while global savings are diminishing.

The continuing noninflationary growth of the Japanese economy is led by the strong demand for domestic investment, which in turn is sustained by the high rate of saving. The Japanese save about 17 percent of their disposable personal income, compared with 10 percent by West Germans and 5 percent by Americans. In 1989 the average Japanese wage earner's income was 5.3 million yen and household savings averaged 10.1 million yen (Y).⁴

In 1989 Japan invested more in plant and equipment (\$549 billion) than the United States, becoming the first nation since World War II to do so.⁵ Much of the increase in investment has been motivated by the growing labor shortage as firms switch to more capital-intensive, labor-saving means of production.⁶ At the same time, there is a de facto income policy in Japan, based on the mutual understanding between management and labor that excessive wage increases will hurt everyone in the end. Wage increases therefore tend to be restrained and consistent with productivity gains rather than rapid enough to initiate a wage-price spiral. Further, the inflationary pressure of the investment boom has been alleviated by growth in imports, particularly labor-intensive goods.

THE OUTLOOK FOR 1991

The year 1991 will probably see a slowdown in Japan's investment boom, causing a mild drop in

the GNP growth rate from 5 to 4 percent. One factor that could help accelerate this slowdown is an increase in interest rates. Before the spring of 1989, interest rates were low. Since then, the Bank of Japan has pursued a tight money policy, raising its discount rate from 2.5 percent to 6 percent by the fall of 1990. The long-term prime rate rose to 8.9 percent in November of that year.

The major fall in stock prices on the Tokyo Stock Exchange in 1990 will have an effect on investment. The drop saw total stock value decrease by Y270 trillion, from Y600 trillion on December 31, 1989, to 330 trillion yen on October 1, 1990. The fall will have a negative effect on investment because it makes the business outlook more uncertain, equity financing more difficult and debt financing less readily available. The recession in the United States will also make itself felt in Japan since as much as 30 percent of Japanese exports go to the United States.

Uncertainty about the future supply of oil, caused by Iraq's invasion of Kuwait in August, 1990, will have a negative psychological impact on investment. Throughout 1991 the price of oil will probably stay higher than it was before the invasion, resulting in weakened investment demand as profits are squeezed by rising production costs. The impact on the Japanese economy should be mild, however, because Japan purchased only 12 percent of its oil from Iraq and Kuwait and today is significantly less dependent on oil than it was during the first major oil crisis in 1974. Oil imports cost the equivalent of 4 percent of GNP in 1974; in 1990 they cost 0.8 percent. And oil imports accounted for 40 percent of the country's total imports in 1974, compared with 10 percent today. In 1973 Japan had a 50-day oil reserve, in contrast to the present 150-day reserve.

TOWARD THE YEAR 2000

Approaching the close of the twentieth century, it is tempting to speculate on what the Japanese economy will be like in the year 2000, barring any catastrophic events that would totally disrupt the international political and economic order. The world's overall economic environment will remain favorable to Japan. We live in the age of borderless economies; national economies are extensively integrated through trade, direct and portfolio in-

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⁴The general aging of the country and rising consumerism is expected to cause the savings rate in Japan to fall slowly in the coming years.

⁵The Japanese population is approximately half the United States population, which means that on a per capita basis Japan invests about twice as much as the United States.

⁶High wages and a shortage of labor in Japan, especially in the construction industry, have been attracting an increasing number of illegal foreign workers from Southeast Asia. The Japanese are divided on the issue of how to manage this inflow.

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"Japan's low energy intensity undoubtedly results from dedication to manufacturing excellence, energy conservation and industrial innovation. It is also the result of a still surprisingly low level of personal energy consumption that reflects relatively poor housing conditions, a limited amount of leisure time and infrastructural weaknesses."

Does Energy Efficiency Explain Japan's Economic Success?

BY VACLAV SMIL

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JAPAN'S economic success begs for explanation. Its magnitude and duration have made Japan the envy of other nations and have sent researchers to look for the critical factors that might reveal the "secrets" of Japanese success. Explanations range from intensely competitive domestic manufacturing (the "they have nine car makers, the United States has just three" school of thought) to the supposed socioeconomic superiority of the family-centered Confucian ethos. Other explanations single out the cunningly manipulative, long-range planning with which Japan's Ministry of International Trade and Industry (MITI) runs a single-minded export-oriented "Japan, Incorporated"; or the alleged advantages arising from mastering three writing systems of an unusually complex language.¹

¹Two contributions to this literature are Chalmers Johnson, *MITI and the Japanese Miracle* (Stanford, Calif.: Stanford University Press, 1982); and Karel van Wolferen, *The Enigma of Japanese Power* (New York: Random House, 1989).

²The minimum number of school days required in Japan, 210 a year, is much like the West German or the Soviet total; see Michael J. Barrett, "The Case for More School Days," *The Atlantic Monthly* (Boston), November, 1990. The Japanese net household savings rate as a share of disposable income was 14.8 percent in 1988, which is not very different from Italy's 14.2 percent or Germany's 12.6 percent. In United States, there are fewer than 180 school days a year and during the 1980's American household savings rates fluctuated between 3.8 and 7.5 percent of disposable income.

³Unless otherwise indicated, all calculations concerning national energy efficiency are based on economic statistics published monthly in the OECD's *Main Economic Indicators* (Paris), while aggregate energy data come from various editions of *Energy Balances of OECD Countries* (Paris). As the latest (1990) set of energy balances contains the statistics for 1987 and 1988, I chose the latter year as the base for my comparisons. The Group of Seven is made up of the seven leading Western industrial nations. Members (in order of their gross domestic product) are the United States, Japan, West Germany, France, Italy, the United Kingdom and Canada. Data illustrating various aspects of national energy intensities are taken from 1970-1990 editions of the *Japan Statistical Yearbook* (Tokyo: Government Statistical Office) and the *Statistical Abstract of the United States* (Washington, D.C.: Government Printing Office).

A more profitable quest would focus on those factors that Japan alone possesses. Leaving aside fascinating but hardly decisive examples like spending large sums of money on decorative stones or eating more beancurd than any other nation, one should look at more promising variables, like intensive primary schooling or high savings rates. But Japan is not in a category of its own in either schooling or savings, since various European nations either match or come close to Japan's levels.²

There is one critical variable in which the Japanese have a clear advantage over other nations: the energy intensity of economic output. Every economic activity is predicated on the supply and conversion of energy. The nation that uses the smallest amount of fuel and electricity to produce a comparable unit of national economic product will enjoy a variety of socioeconomic advantages, ranging from strong competitiveness in the global market to diminished environmental impact. Japan is clearly such a nation. The reasons for this unique position deserve close scrutiny, not least in order to understand the challenge facing the United States.

There is a wealth of relevant international energy and economic data, but to ensure the greatest possible comparability and consistency, this inquiry is based on statistics from the Organization for Economic Cooperation and Development (OECD), and the comparisons will be limited first to the Group of Seven (G7) countries and then to the contrast between Japanese and United States performance.³ The most frequently used measure of national energy intensity is calculated by dividing total energy consumption—OECD statisticians prefer to call it the total primary energy requirement (TPER)—by a country's gross domestic product (GDP).

Taking 1988 GDP values at that year's prices, converting them to United States dollars at 1988 average exchange rates and dividing these values into TPER expressed in tons of oil equivalent yields the rate of 118 kilograms of oil equivalent (kgoe) per

\$1,000 for Japan.⁴ The second most energy-efficient major economy was France's, which was 28 percent above the Japanese level, with 151 kgoe per \$1,000. West Germany needed 69 percent more energy than Japan, and the United States rate was 357 kgoe per \$1,000, or three times as much energy as Japan's (only Canada's rate was worse, at 397 kgoe per \$1,000).

Adjustments for substantial fluctuations in each country's exchange rate slightly alter the rankings, but they cannot take away Japan's lead or shrink the still considerable difference between low Japanese energy intensity and the inefficient performance of the United States. This wide disparity presents the following questions: what is the cause? what are the major contributing factors? how much of this difference stems from unique, and largely immutable, national peculiarities? and how much of it can be ascribed to technical prowess or backwardness, to frugality or repressed personal consumption, to excesses or rational use?

STRUCTURAL CAUSES

When compared with the United States, the Japanese advantage in energy efficiency extends to all major economic sectors with the sole exception of farming. Farming in the United States, which is based on large fields and concentrated animal husbandry, has recently required at least 25 percent less primary energy than Japan's fragmented, excessively subsidized agriculture. But the United States advantage is insignificant since farming contributes only 3 percent of United States GDP compared with 2 percent of Japan's, and it directly consumes less than 1 percent of the country's TPER compared with about 1.2 percent in Japan.

Comparisons of industrial production (which currently accounts for about one-fourth of GDP in the United States and one-third in Japan) show that resource extraction, processing and manufacturing are about 50 percent more energy-intensive in the

United States than in Japan. Structural differences and technical advances account for most of this disparity. Structural differences arise from differing histories and resource endowments. The mineral-rich United States has traditionally been a heavily mining-based nation; mining contributed more than 5 percent of the country's GDP a generation ago, and it still provides close to 3 percent, compared with Japan's share of about 0.33 percent.

And even though the United States imports a great deal of crude oil, the country currently ranks as the world's largest producer of high-quality bituminous coal, and the second largest producer of crude oil and natural gas. Overall, the United States is the world's leading producer of primary energy, annually extracting and generating nearly 25 times as much fossil fuel and primary electricity as Japan. Extraction, processing and long-distance distribution of fuels over land are inherently energy-intensive activities; except for petroleum refining, these activities either have only a marginal place in the Japanese economy or are totally absent.

Moreover, the possession of abundant energy resources promotes higher energy use because it attracts energy-intensive industry and because it leads to relatively wasteful consumption. Not surprisingly, there is a strong negative correlation between dependence on primary energy imports and average TPER per GDP levels.⁵ The structure of primary energy use, which is largely a matter of resource endowment, influences energy intensity: liquid and gaseous fuels have an inherently higher thermal conversion efficiency rate than solid fuels. As a result Japan, with 18 percent of its TPER coming from coal (compared with 24 percent in the United States), enjoys another structural efficiency advantage.⁶

Although the United States has reduced the share of energy-intensive mining and heavy industrial activities in its GDP since the early 1970's, the Japanese have done so to an even greater extent. Broad economic restructuring reduced Japanese reliance on the energy-intensive industries that were responsible for economic growth during the 1960's and the early 1970's. Nothing symbolizes this trend better than the changes in Japan's iron and steel industry. Between 1965 and 1973, the country's crude steel output nearly tripled (from 41.2 million tons to 119.3 millions tons)—but by 1988, as Japanese steelmakers embarked on a long-term program of drastic rationalization and diversification, it was just 105.7 million tons.

These changes, accelerated since 1986 by the high value of the yen, included cuts in the labor force and closing down blast furnaces (for example, Nippon Steel completely shut down blast furnaces in four of its five plants and left only one working in

⁴Oil equivalent is used as a common denominator because refined oil products are the most important sources of primary energy in the OECD nations.

⁵Canada, the only net energy exporter among the G7 countries, is the most energy-intensive of the group, while Japan, the largest energy importer, is the least. Another highly energy-intensive sector in the United States involves the development and deployment of strategic nuclear weapons and of large land, air and naval forces. A large portion of energy expenditures for the military is subsumed in manufacturing demand for fuel and electricity because the production of vehicles, tanks, ships, airplanes, missiles and weapons requires many highly energy-intensive inputs (above all, special metals and composite materials).

⁶Liquid and gaseous fuels generate a lower amount of air pollutants per unit of useful energy, and it is possible to remove virtually all sulfur from natural gas or fuel oil before combustion. Coal desulfurization is much more difficult and expensive.

its Yawata Works). Other changes included branching into electronics, new materials, biotechnology and land development. The 1990 annual report of Nippon Kokan, Japan's first privately owned steelmaker, shows little evidence that the company still produces steel: the brochure is full of photographs of electronics, computer-aided design and manufacturing devices, and condominium models.

Manufacturing output rose by 11 percent between 1985 and 1988. But the output of high-value-added goods requiring less energy for production rose even more: in the same period the output of pharmaceuticals increased 23 percent, integrated circuits 24 percent, computers 43 percent and telecommunications 108 percent. Japanese companies have also been at the forefront of virtually all low-energy but high-value-added product innovations of the 1980's, ranging from composite materials and copying and facsimile machines to computer-controlled luxury cars and robotics.

TECHNICAL DIFFERENCES

A detailed analysis of steelmaking in the United States and Japan shows that in 1973 the average energy costs of American steelmaking were about 50 percent higher than in Japan.⁷ The reasons behind this disparity were overwhelmingly technical; larger (and hence more efficient) Japanese blast furnaces were operating at higher top pressures, with higher oxygen enrichment, higher blasting temperatures and higher quality coke, and they were charged more often with preheated ores.

Moreover, about one-fourth of all United States steel was coming from the type of inefficient open hearth furnaces that accounted for less than 2 percent of Japanese output; 25 percent of all Japanese steel was produced by efficient continuous casting, compared with only 11 percent in the United States. Since the 1970's a variety of technical improvements have increased the energy efficiency of typical iron and steelmaking sequences in both nations by about 15 percent; but the overall reduction of fuel and electricity use in American ferrous metallurgy owes more to new attempts to increase the recycling of scrap than to technical improvements.⁸

⁷Thomas V. Long 2d et al., *Economic Determinants of the Use of Energy and Materials in the U.S. and Japanese Iron and Steel Industries* (Chicago, Ill.: The Committee on Public Policy Studies, University of Chicago, 1978).

⁸In Japan the ratio of pig iron to crude steel remained largely unchanged (0.77 in 1973, 0.75 in 1987), but in the United States it declined from 0.7 in 1975 to 0.5 in 1989. Smelting iron and then producing steel typically requires 60 to 70 percent more energy than making steel from recycled scrap in electric arc furnaces.

Steelmaking in the United States, however, continues to lag behind steelmaking in Japan. In 1988, 95 percent of Japan's steel output came from efficient continuous casting operations, compared with only 60 percent in the United States, and about three-fourths of America's steelmaking capacity will require upgrading or replacement by the year 2000, compared with only 15 percent in Japan. The technical advances that reduced the average energy cost of Japanese steelmaking by 20 percent between 1973 and 1985 had an even greater impact in other industrial sectors: energy requirements in pulp and papermaking were reduced by about 25 percent, and in ethylene synthesis by about 35 percent during the same period.

But the combination of sectoral differences and technical advances in industrial production does not account for most of the disparity between United States and Japanese energy intensity. Compared with Japan's energy use per capita, industrial energy use in the United States is "only" 1.6 times higher, while energy use for transportation is 3.6 times higher, and energy residential energy use is 3.5 times higher. The high energy needs in the United States result from enormous private consumption in transportation and housing rather than industrial inefficiency.

ENERGY FOR TRANSPORTATION

The huge size of the United States (more than 21 times larger than Japan, even without Alaska) naturally demands considerably more energy for transportation. Extraordinarily high dependence on private cars intensifies this disadvantage; annual gasoline consumption alone during the 1980's in the United States was equal to between 87 and 90 percent of Japan's total energy use. In 1988 the Japanese consumed only 238 kilograms (85 gallons) of gasoline per capita, compared with 1,287 kilograms (460 gallons) per capita in the United States.

The difference derives from the higher level of car ownership in the United States (in 1988, there were 57.4 passenger cars for every 100 Americans, compared with 25.1 cars for every 100 Japanese), longer average distances traveled (in 1988, 16,190 kilometers per car in the United States versus 9,986 kilometers per car in Japan), and lower gasoline efficiency (in 1988, a mean of 23.2 miles per gallon in Japan, compared with 19.9 miles per gallon in the United States). The average gasoline efficiency of cars in the United States rose by more than 50 percent between 1973 and 1988 (from 13 miles per gallon to 19.9), and it is now only 15 percent behind the Japanese performance (which improved by 6 percent during the same period); moreover, Japanese car ownership rose by nearly 50 percent during the

Social Infrastructure in Five Industrial Countries

	Japan	Britain	West Germany	France	United States
Main Sewage (percentage of population served)	40.0	95.0	91.0	64.0	73.0
City parking (in square meters per person)	2.5	30.5	37.4	12.2	45.7
Express highways (in square meters per vehicle)	87.0	120.0	290.0	264.0	465.0
Public water supply (percentage of population with access)	94.0	99.0	98.0	98.0	—
Telephones (per 100 people)	40.5	38.1	42.3	41.7	45.2
Hospital beds (100,000 people)	1,204.2	856.6	1,149.6	1,069.4	585.7

Source: *Far Eastern Economic Review* (Hong Kong), June 20, 1990, p. 50.

1980's with people buying larger, less energy-efficiency vehicles. Nevertheless, there is little hope for any significant narrowing of the huge gap in gasoline efficiency.

The cost of gasoline in Japan is nearly four times the cost of gasoline in the United States, and it is physically impossible for cars in Japan to become the leading means of transportation, so average travel distances will remain limited (in fact they declined by about 8 percent between 1975 and 1988) and larger cars will be bought more for display than for extensive driving. Similarly, even the recent surge in Japanese flying, which nearly doubled jet fuel consumption between 1986 and 1988, has done little to close the enormous consumption gap between the two nations.

RESIDENTIAL CONSUMPTION

In spite of Japan's growing consumer affluence, the country's consumption of household energy remains far below the United States level; in 1988, there was nearly a fourfold difference. Among the G7 countries, only Italian households use less energy. Only a small part of this disparity results from unavoidable climate differences. The most important factors are the average size of dwellings, the actual temperature maintained inside during the heating or cooling period, and the ownership and power ratings of household appliances. Japan lags behind the United States in all these areas. An apologist could interpret this gap as a sign of commendable consumer frugality, but most Japanese would welcome substantial improvements to make their lives more comfortable.⁹

Japanese household appliances are almost invariably well designed and highly energy efficient, but their relatively small size contributes to their lower energy use. While there would be little benefit

from overheating and overcooling the rooms (as is so commonly done in North America), the average Japanese family would like to have a larger house (the existing mean for single family dwellings is about 90 square meters compared with about 150 square meters in the United States), and one that is centrally heated and cooled. Forced air or electric resistance heating are the norm in the United States, but central heating started to appear in Japan only during the 1980's; in 1980 only 18 percent of households had a warm-air furnace and in 1988 only 50 percent had one.

Consequently, in Japan nearly half of all families use portable kerosene stoves and *kotatsu*, electric heaters. The *kotatsu* is placed under a four-legged frame covered with a futon-like quilt that retains heat and warms the feet of the family as it gathers around the only warm spot in an often drafty room. Similarly, while central air conditioning has been used in new housing in the United States since the 1970's, room units are still standard in Japan.

Another element that contributes to lower Japanese residential energy use is the fact that the Japanese simply have considerably less leisure time than Americans. Compared with between 1,800 and 1,900 working hours a year in the United States, the United Kingdom or France and just 1,700 hours in West Germany, Japanese workers average over 2,100 hours a year. This is slowly changing. For example, between 1980 and 1986, employers provided an average of 15 vacation days but workers actually took off only half that time. Moreover, surveys show that blue-collar workers would prefer to have a higher income even if it required them to work more hours.¹⁰

SOCIAL INFRASTRUCTURE

Japan's well-known infrastructural deficiencies

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⁹The *Survey on People's Living* conducted regularly by the Japanese Prime Minister's Office shows that concerns about housing are consistently more important than those about leisure, food and ownership of durable items.

¹⁰Economic Planning Agency, *Economic Survey of Japan, 1987-1989* (Tokyo: Economic Planning Agency, 1989), p. 191.

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JAPAN'S ROLE

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duce structural impediments to the flow of trade and investment. The United States asked Japan for changes in six areas: savings and consumption, investment balance, the distribution system, land-use policies, exclusionary business practices, and pricing. For its part, Japan asked the United States to address its budget deficit, its low savings rate and educational and worker-training difficulties. In short, each side "interfered" in the internal affairs of the other country.

The SII talks represented one of the few times that postwar Japan and the United States made demands on each other. Japan should be more assertive in dealing with the United States since Americans are used to resolving conflict through argument and debate. Avoiding issues for fear of confrontation can only add to confusion and misunderstanding. Effective leadership requires the ability to articulate and initiate moves. Robert Samuelson wrote in the *Washington Post* a few years ago that "great nations do not negotiate so much as they initiate. Japan is a great nation. It should begin acting like one."¹¹ Indeed, providing the initiative is a precondition for Japan to establish a working partnership with the United States in the framework of an international joint leadership system. ■

¹¹Robert Samuelson, *Washington Post*, March 6, 1985.

SINO-JAPANESE RELATIONS

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for admission to a Japanese "language school." The "language school" (altogether some 300 unlicensed schools existed in Japan in 1988, with 80 percent located in the Tokyo area) would then certify the applicant as a student and put in a request to Japanese immigration authorities to issue a visa.

Once the student received a visa and entered Japan, he or she would study part-time and work full-time, saving as much as possible to send back to China. Living conditions were often difficult; usually three students would share a six "tatami-mat" room (about 108 square feet), and work in the service industry or in construction, auto repair, or metal working plants.

This system worked until April, 1988, when the Japanese government began to restrict the number of visas for language study. Chinese who had earlier paid huge sums of money to "people's brokers" to gain admission to language schools were unable to enter Japan. Resentment toward the government's

new visa policy boiled over in November, 1988, when 35,000 Chinese staged a demonstration outside the Japanese consulate-general in Shanghai, protesting the changes. A Chinese embassy official in Tokyo complained that "China's young people are the real victims" of Japan's incoherent visa policy.

After the crackdown on the democracy movement in China, the Japanese government initially tried to reassure the more politically active Chinese students by announcing that their visas would be extended and that they would not be forced to return to China. However, staying in Japan did not prove to be a sanctuary. Some students claimed that members of the Chinese embassy in Japan were spying on them and trying to intimidate them by making threatening phone calls.

The Japan Civil Liberties Union (JCLU) accused the Japanese Immigration Bureau of being unhelpful in granting visa extensions to pro-democracy activists. It documented 13 cases of pro-democracy activists who were denied visa extensions, and 23 other members of the Japanese branch of the Federation for Democracy in China (FDC) whose requests for visa extensions were put into the special category "under consideration," meaning that they were neither approved nor denied.¹²

CONCLUSION

The suppression of the democracy movement in China temporarily chilled economic and political ties between Tokyo and Beijing. High-level official political contacts were finally renewed after Finance Minister Ryutaro Hashimoto visited Beijing on January 8, 1991.

It was clear that the relationship was far too important to both countries to allow strained relations to continue indefinitely. Leading members of Japan's Liberal Democratic party like former Deputy Prime Minister Shin Kanemaru and Takeshita visited Beijing in the summer and fall of 1990. These visits came after a trip to Tokyo in early 1990 by the head of China's State Planning Commission, Zou Jiahua.

Long-term Japanese economic and strategic interests forced Japan to maintain an "open door" with China, regardless of human rights violations and United States displeasure at Tokyo's lack of moral outrage. Japan's response to the suppression of the democracy movement in 1989 showed that Japan and China will maintain relations in the face of international and domestic pressures. Should China's aging hard-liner leadership pass quickly from the political scene and a reformist government emerge, Sino-Japanese relations will improve even more. ■

¹²"Japan: Harassment of Chinese Dissidents," *News From Asia Watch*, October 4, 1990.

THE U.S. AND JAPAN

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more vulnerable to major policy shifts in case of any such negative developments.

How might Japan avoid extremes in security matters? The country is largely isolated except for its bilateral security treaty with the United States. If a Conference on Security and Cooperation in Asia, adhering to principles similar to those of the Conference on Security and Cooperation in Europe, could be established for all the Asian democracies, then Japan, South Korea and other Asian countries would become enmeshed in a multilateral security framework that would lend political stability to East Asia. Also, Japan and the United States must consistently assert that their security relationship is designed for mutual assurance rather than as a threat to the Soviet Union or anyone else.

Bonds between the United States and Japan remain strong; any major change would be less satisfactory than the way things operate at present. But because conditions have changed dramatically since the compact between Japan and the United States was established after World War II, a series of measures, some cosmetic and some substantive, must be implemented to satisfy domestic demands in both countries without fundamentally altering the relationship. A somewhat modified status quo can be sustained if both nations are clever enough in their policy adjustments. If the United States tries to do too much or too little, however, it runs the risk of ruining a relationship that has been extraordinarily beneficial for both the United States and Japan for more than three decades. ■

JAPAN AND NORTH KOREA

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that the inflation rate and other factors, like Japan's economic assistance to South Korea since 1965, must be taken into consideration. Some observers even expect that North Korea will demand as much as \$10 billion by requesting compensation for the postwar period.⁹

If properly handled, the establishment of diplomatic ties between Japan and North Korea could contribute to the stability of the Korean peninsula by facilitating "cross recognition" of the two Koreas by the major powers. However, Japan's failure to pay adequate attention to South Korea's security interests in seeking rapprochement with North Korea could undermine not only friendly relations with South Korea, but also the existing balance of power on the Korean peninsula. ■

⁹Katsumi Sato, "Kanemaru wa nanio shini Hocho shita no ka," *Shokun* (Tokyo), November, 1990, pp. 30-31; see also *Shukan Shincho* (Tokyo), October 11, 1990, p. 46.

JAPAN'S ECONOMIC DYNAMISM

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vestments and technology transfer, and the trend will no doubt continue. Bilateral trade bashing notwithstanding, there will not be an economic war between the United States and Japan because the two economies have become critically interdependent. The complete economic integration of West Europe that is targeted for 1992 will probably mean a common market that is more open than protectionist vis-à-vis the outsiders. The Pacific Rim, with which Japan maintains basically harmonious and complementary economic relations, will remain the fastest-growing region of the world. The world economy in turn will be favorably affected by developments in the Japanese economy.

In Japan, domestic investment-led growth is expected to last through the end of this century. Levels of consumption, private investment in plant and equipment, research and development, and technological innovation will all rise. Wages will increase in line with productivity gains and price stability will continue.

As part of the Structural Impediments Initiative, an agreement with the United States signed in June, 1990, Japan will spend \$3.3 trillion over the next 10 years on public works. This translates into an approximately 6 percent annual increase in public investment during the period. The improved infrastructure should significantly enhance the productivity of the private sector.

The Japanese nation is rapidly aging.⁷ However, the number of people under age 15 is falling, while the size of the productive age group (between ages 15 and 65) will stay unchanged during the 1990's. The number of those in this group will continue to increase through 1995. Because of greater participation by women in the labor market, more re-employment of the elderly, a measured increase in employment of foreign workers, and continual labor-saving innovations, the labor shortage will not be a critical bottleneck in economic growth.

The leading Japanese economic forecasters are predicting that the economy will grow at an average annual rate of between 4 and 5 percent for the balance of the century, and that the yen will be revalued to 100 yen to the dollar by the year 2000.⁸ If these predictions come true, Japanese GNP will match or slightly surpass United States GNP at the start of the next century. ■

⁷The birthrate in Japan has been steadily falling. At present the average birthrate is 1.57 live births per woman. If this rate holds, in only two generations the Japanese population will decline from the present 123 million to 70 million.

⁸The Japan Center for Economic Research, the Economic Planning Agency and the Nomura Institute.

KAIFU'S GOVERNMENT

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repeal of the United States–Japanese Mutual Security Treaty; it now recognizes the legitimacy of South Korea, cooperates with the LDP on issues of common interest and in the spring of 1990 officially renounced Socialist revolution as its ultimate goal.

The Japan Socialist party has succeeded not only at the LDP's expense but also at the expense of the other opposition parties; Komeito, the Democratic Socialist party and the Japan Communist party lost a few seats each in the 1989 upper house elections and about a dozen seats each in the 1990 lower house election. As a result, the Japanese party system today looks more like the so-called one and one-half party system of the late 1950's and early 1960's. Nonetheless, the Japan Socialist party would require the opposition's cooperation to mount a serious challenge to the LDP. The two middle-of-the-road parties—Komeito and the Democratic Socialist party—have grown estranged from the Socialist party because of their electoral defeats. In the February, 1990, Diet elections for a new Prime Minister, members of the three opposition parties abstained rather than casting their ballots for Doi, the Socialist party candidate.

None of the opposition parties is likely to change its mind any time soon and begin cooperating with the Socialist party. As a result, the LDP will probably maintain its dominant position in the lower house, even while it remains dominated by the opposition in the upper house. Kaifu, on the other hand, has only a slight chance to remain LDP leader and Prime Minister beyond the next LDP party election in October. ■

ENERGY EFFICIENCY

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also contribute to its lower private energy use, as well as to its lower energy use in public and commercial establishments. The most infamous deficiency is the lack of sewers and wastewater treatment facilities: only 16 percent of Japanese homes were connected to sewers in 1970 and by 1987 this rate had risen to no more than 37 percent.¹¹ The quality of Japan's roads is also deficient; about 75 percent were paved in 1973 and by 1985 less than 78 percent had been paved. In contrast, 95 percent of

¹¹Only 37 percent of Japanese live in districts served by sewage systems—by far the lowest rate among all rich nations. See Statistics Bureau, *Japan Statistical Yearbook 1989* (Tokyo: Statistics Bureau, 1989), p. 619. In Europe the figure is generally above 80 percent, and the United States rate in 1987 was almost exactly 75 percent.

¹²Takahashi Nobuaki, "Superpower Japan, the Closet Pauper," *Japan Echo*, vol. 16, no. 2 (1989), pp. 47–51. ■

America's vastly more extensive road network is paved.

NO SIMPLE CONCLUSIONS

Rates of average energy intensity in industrialized nations are revealing and valuable measures of economic performance and technical prowess. But as with any aggregate indicator reflecting a variety of national peculiarities, it would be misleading to interpret these rates naively. TPER per GDP ratios do not simply express national economic efficiency, nor do they measure appropriately overall energy conversion efficiency. "The lower the better" may be a commendable general aim, but a comparison of Japanese and American rates shows a much more complex reality.

Japan's low energy intensity undoubtedly results from dedication to manufacturing excellence, energy conservation and industrial innovation. It is also the result of a still surprisingly low level of personal energy consumption that reflects limited leisure time and infrastructural weaknesses. The title of a 1989 article, "Superpower Japan, the Closet Pauper," captures this contradiction.¹²

Compared with the United States, Japan enjoys other advantages that raise the energy efficiency of production without superior technical capabilities. Most notably, these include a high population density and moderate climate (reducing the need for transportation and household energy use), a virtual absence of inherently energy-intensive domestic fuel production (a paradoxically influential matter of resource endowment), and a much smaller defense sector (at the insistence of the United States after World War II). There are also important differences rooted in historical development, above all the contrast between Japan's limited natural resources and high cost of living and the United States proclivity for wasting energy because of plentiful land and abundant and still relatively cheap domestic fuels and electricity.

But the comparison clearly shows the need for more convergence between the energy intensities of both countries. The United States needs more efficient industries, cars and household appliances in order to eliminate unnecessary waste. Japan requires larger houses, a modernized infrastructure, and more leisure time in order to improve the Japanese standard of living. However, nontechnical differences would keep Japan's energy intensity below the United States level. The goal of rational energy policy is not to have the lowest rate in international comparison, but as low a rate as possible given a country's economic structure and responsible expectations for a sustainable standard of living. Seen this way, both countries have a long way to go. ■

SOVIET-JAPANESE RELATIONS

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it can export to Japan to ward off the deficits that are likely to be created by the demand for Japanese consumer goods and machinery. Six products—wood, metals, cotton, fish, coal and oil—account for 75 percent of all Soviet exports to Japan.⁹ The travails of competing in the Japanese market (faced even by advanced capitalist countries) and the poor quality of Soviet manufactured goods make it difficult to overcome this quasi-colonial pattern of trade. Meanwhile, the Soviet economy's need for a variety of imports from Japan will pose the continuing problem of deficits.

A revised decree on foreign investment by the Soviet Council of Ministers in December, 1988, made Soviet legislation on joint ventures more flexible.¹⁰ This could improve the prospects for larger Japanese investments in Soviet Asia, especially if progress is made on resolving political and territorial problems. Yet the four impediments mentioned show that it is incorrect to see the territories dispute as the decisive or sole barrier to expanding Japanese-Soviet economic transactions.

THE SECURITY DIMENSION

In Soviet strategic thinking, Japan is a platform for United States nuclear armaments deployed along the Soviet Union's northeastern periphery. It is also seen as a maze of installations that can support the projection of United States conventional forces into large, thinly populated Siberia. Siberia, though defended with some 500,000 troops, is far removed from the European centers of Soviet power. Moreover, this huge barren area is supplied by a

sparse, vulnerable logistical network.

Soviet commentators regard the visits to Japanese ports of United States ships and submarines that are capable of carrying nuclear weapons as a violation of Japan's three nonnuclear principles. Japan maintains that since the United States has not made any requests to bring nuclear weapons into Japanese ports, United States vessels entering Japan simply do not carry them. The Soviet Union rejects this reasoning on the grounds that such requests contravene the well-established United States policy of neither confirming nor denying the existence of nuclear weapons on board United States vessels.

Soviet criticism of Japan's role as a nuclear weapons platform for the United States intensified after the deployment of F-16 aircraft (which can carry conventional and nuclear weapons) at Misawa airbase in northeast Honshu, and the introduction of the Tomahawk land-attack cruise missile, which can carry either nuclear or conventional warheads, onto the ships and submarines of the United States Seventh Fleet.

Soviet leaders view with alarm the expansion of Japanese defense spending. On the face of it this is puzzling. There is a great disparity in size, population and military might between Japan and the Soviet Union. The Soviet Union's reaction, however, has a historical context. The two countries have been rivals in northeast Asia throughout this century. On four occasions this competition has culminated in war.

There is also an economic context to the Soviet reaction. As Soviet Deputy Foreign Minister Igor Rogachev has pointed out, increases in Japan's defense spending should be commensurate with the immense technological attainments of its civilian economy. "This," he pointed out during a visit to Manila in 1988, "is what worries us."¹¹ The Soviet Union's apprehension about its failure to keep abreast of the late twentieth century technological revolution is all too apparent today. The military implications of this revolution have, as the writings of Soviet officers demonstrate, provoked considerable discussion on the need to remain competitive in military technology. This preoccupation explains why developments that suggest the beginnings of a military build-up by Japan, an opponent in previous wars, an ally of the United States and a world leader in technology, evoke anxiety in the Soviet Union.¹²

Soviet analysts stress that there has been a steady increase in Japan's defense spending, averaging 6 percent in the 1980's—a rate that significantly exceeds that of the North Atlantic Treaty Organization (NATO).¹³ They also dwell on the sharp increase in Japanese expenditures for the maintenance of United States forces and the 1987 decision

⁹Sumiye O. McGuire, *Soviet-Japanese Economic Relations* (Santa Monica, Calif.: Rand Corporation, 1990), table 2.1, p. 8.

¹⁰The decree removes the ceiling of 49 percent of equity that a foreign partner may hold and stipulates that the sharing of ownership is to be decided by the foreign partner and the Soviet enterprise. In theory, this appears to remove any limits on the percentage of equity that can be held by external partners. The decree also amends an earlier restriction by allowing foreign nationals to be directors of joint ventures, exempts joint ventures in Soviet Asia from any taxes for three years from the date of the first profits, and allows the Ministry of Finance to limit or remove taxes from profits sent abroad.

¹¹Interview with *Malaya* (Quezon), March 28, 1988, pp. 1, 6, in FBIS, March 31, 1988, p. 18.

¹²While the trends in Japanese defense policy discussed here are followed with concern by Soviet defense specialists, not all Soviet experts on security, or scholars on Japan, believe that Japanese militarism is about to be revived.

¹³According to Japanese government figures for fiscal year (FY) 1981 through FY 1990, the average growth rate of defense spending has been 6.4 percent. The FY 1990 draft budget of December, 1989, called for a 6.1 percent increase and set total defense spending at \$31 billion. See *Fact Sheet: Japan's Defense Budget, FY 90* (Washington, D.C.: Embassy of Japan), p. 1.

to breach the defense spending ceiling of one percent of the gross national product (GNP) adopted in 1976.¹⁴ New developments in Japan's defense policy, such as discussions on the acquisition of Aegis destroyers, aircraft carriers, ships with advanced antisubmarine warfare sonar and aircraft with aerial refueling capabilities, or reassessments of the ban on sending military forces overseas, are followed in the Soviet Union with considerable interest and uneasiness.

Soviet reports maintain that in multilateral naval exercises held in 1988, Japanese ships focused on protecting United States aircraft carriers. Soviet leaders have traditionally seen these carriers as the key United States instrument for striking Soviet territory and for the execution of its maritime strategy. While Japan's role in the exercises has been the object of Soviet criticism since 1980, the Pacific Ocean naval maneuvers involving Japan and the United States, conducted to coincide with September, 1989, multilateral exercises, have also been pointed to in Soviet commentaries as evidence of dramatic changes in the theory and practice of Japanese military policy.

Japan's role in the maritime strategy has been dwelt on by Soviet military experts. They point out that United States-Japanese joint military exercises have involved simulated attacks on Soviet territory, antisubmarine warfare, and operations designed to blockade the straits that command the Soviet Pacific Fleet's access to the open sea. They also argue that Japan's role in antisubmarine warfare is a threat to the safety of the strategic nuclear submarines of the Pacific Fleet and thus to the maritime component of the Soviet nuclear deterrent.

Japan's collaboration with the United States in military research and development also troubles the

Soviet Union. In 1983, Japan decided to exempt the United States from its 1967 and 1976 guidelines restraining the export of arms and military technology.¹⁵ In the Soviet view, this step enhances the ability of the United States to develop high-tech weaponry; it also exploits the Soviet Union's technological lag by forcing it constantly to monitor and respond to the combined resources and skills of the world's two most technologically advanced states.¹⁶

While the substantive results of this exemption have been meager, Soviet leaders are clearly concerned about the basis for future cooperation it provides. Japanese and United States firms have already discussed cooperating in the development of a phased-array radar for the FSX fighter that is being coproduced by Japan and the United States. The United States is also interested in Japan's work in a variety of high-resolution sensor technologies. Joint work in seven areas of defense technology was on the agenda for discussion during United States Secretary of Defense Dick Cheney's visit to Japan in February, 1990. Negotiations, based on the 1983 accord, for United States-Japanese cooperation in defense technologies related to rocket motors, reducing submarine noise levels and target acquisition systems for missiles were held after Cheney's visit. These developments have not escaped Soviet attention. The 1987 Japanese decision to join the United States research effort on the Strategic Defense Initiative (SDI) evokes apprehension for similar reasons. For Moscow, United States-Japanese cooperation in defense technology means the exploitation of the Soviet Union's failure to compete in the latest technologies, many of which have important implications for weaponry, as Soviet military officers are well aware.

CONCLUSION

Gorbachev's foreign policy has confounded the predictions of pundits. In freeing East Europe from Soviet domination, accepting a united Germany in NATO, withdrawing his troops from Afghanistan and accepting the principles of deep, asymmetrical cuts and intrusive verification in arms control, he has done what most observers thought was impossible. It would be foolish, therefore, to forecast what will happen during Gorbachev's projected trip to Japan in April, 1991. He faces the task of redefining a relationship with Japan that has been shaped by a complicated territorial dispute and by a long historical legacy of rivalry, war and cold war. But it is unclear what Gorbachev can accomplish at a time when his ability to offer major concessions on the island territories controversy may be reduced by the turmoil and the rise of conservative forces in the Soviet Union. ■

¹⁴FBIS, March 22, 1988, pp. 27-28; and March 11, 1988, p. 11. Soviet sources stress that Japan's defense budget is now the third largest in the world, but the value of the Japanese defense budget in United States dollars has risen in recent years, principally because of the appreciation of the yen. See Kenneth Hunt, "Japan's Security Policy," *Survival*, vol. 31, no. 3 (May-June, 1989), p. 201.

¹⁵The April, 1967, principles on arms exports prohibited arms transfers to countries that were in the Communist bloc; to countries in which military exports were prohibited by United Nations resolutions; or to countries involved in, or likely to be involved in, wars. The February, 1976, policy guideline reaffirmed the 1967 restraints, pledged to limit arms sales to regions not covered by them, and stated that equipment relevant to arms would be covered by the same limitations imposed on arms under the 1967 principles. See the White Paper, "Defense of Japan, 1989," p. 183.

¹⁶The share of research and development in Japan's defense budget has risen steadily from 1.5 percent (\$252 million) in 1984 to 2.5 percent (\$716 million) in 1990. See *Defense News*, January 15, 1990, p. 10, citing Japanese Defense Ministry figures.

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redress a trade disequilibrium has been tried and has failed: relaxation of import barriers, exchange-rate appreciation, accelerated domestic demand, politicians' exhortations to import more, and so on. Japan's argument about the true openness of its markets would be a lot more convincing if most of its trading partners were not voicing the same market-access complaints as the admittedly export-indifferent United States.

Although there is a dearth of smoking guns, circumstantial evidence, anecdotal evidence, and plain common sense collectively suggest that in the case of sophisticated manufactured goods, especially those in the targeted industries of the future, Japanese companies do prefer to keep the market share of imports to a "moderate" level. The market is not closed. It is, however, an extraordinary uphill battle by foreign exporters for more than a nominal market share in Japan. Even foreign companies that have a long-term, strong commitment to doing everything right in selling in Japan encounter levels of difficulty and frustration not experienced in countries with less of a history of keeping the rest of the world at a distance.¹

Japan's efforts at "internationalization" have fallen far short of the mark. The country's retention of its insular, tradition-bound mentality has collided with the sheer magnitude of its export success, as well as with what is arguably the most pervasive international trend of the late twentieth century: accelerated economic interdependence. With its new role as the world's largest creditor nation come new responsibilities and the need for greater empathy for the economic needs and interests of its major trading partners and the poorer countries of the Southern Hemisphere.

Forecasts of the imminent peaking of Japan's economic success are, as they have been for almost 20 years, more wishful thinking and economic fallacy than truth. Japanese society may be aging, and a new generation born into relative affluence may not retain the same commitment to the work ethic as previous generations. But that will not prevent people from working harder. The idea that Japan has come to a plateau because it is not good at innovation flies in the face of the economic data showing massive outpourings of capital for investment in new plants and for research and development by Japanese corporations, as well as an upsurge in new patent applications.

¹See for example the report of the sales failure in high-tech goods by a native-born Japanese émigré sent back to live in Japan by Allied-Signal, Inc., in "Hidden Wall: A Native Son Battles Japan's Trade Barriers," *Washington Post*, June 23, 1989.

UNITED STATES ECONOMIC FLAWS

The continuing difficulty in exporting sophisticated capital goods to the Japanese market is the first of two distinct, though interrelated, problems that constitute the essence of contemporary United States-Japan trade relations. The second problem is the inadequacies of both the domestic and external American economic performance. These collective inadequacies would perpetuate a large bilateral trade disequilibrium even if Japan were to undertake a radical restructuring of its attitudes toward dependency on foreigners for key technologies, its distribution system, its industrial structure, its willingness to abandon old business relations just to obtain cheaper products, and so forth.

The counterparts of Japan's record-setting trade surpluses are the unprecedented United States deficits that turned the American trade account in the 1980's into a sea of red ink. An important source of the deficits in the first half of the decade was not of Japanese origin: the overvaluation of the dollar's exchange rate made imports a bargain and reduced the competitiveness of American exports on a global basis. Large federal budget deficits following the tax cut induced by Reaganomics combined with falling savings rates to produce an internal United States disequilibrium that inevitably caused a net inflow of capital from abroad and a deficit in the current account (goods and services) of the balance of payments. Until savings increase or the budget deficit is reduced, a United States trade deficit will remain, not of Japanese doing but one that is largely self-inflicted.

When competing head-on with the industrial giants of Japan, the weaknesses of American management practices and production techniques are painfully magnified. The American reward system, which instills myopia among business executives about the value of immediate profits, does not hold up well against the long-term time horizon of Japanese managers willing to invest years of effort and lose hundreds of millions of dollars to maximize global market share. Ironically, several of the "innovations" of Japanese management, such as statistical procedures to enhance quality control, were devised by Americans whose countrymen originally had no interest in their ideas. It was not until recent years that most American business executives switched from the argument that the Japanese were competing mainly through unfair practices to the position that even the mightiest, proudest American industrial company would do well to replicate the perfectly fair and quite clever strategies being practiced by their Japanese competition. Hence, many American companies learned that assembling goods right the first time is cheaper than repairing defects later on, that is, vigorous quality

control is effectively free.

Many American factories have switched to the Japanese system of "just in time delivery," by which inventory costs and the need for storage space are reduced by having suppliers deliver components only hours before they are actually needed on the production line. A number of American manufacturing companies have adopted the Japanese model of minimizing layers of middle management and maximizing attention paid to the ideas of production-line workers.

American companies are slowly absorbing the brilliant approach of their Japanese competitors to "process technology," the art of designing the production line for maximum efficiency. As exemplified by the unsuccessful multibillion-dollar retooling by General Motors in the 1980's, maximum efficiency on the production line means more than simple installation of labor-saving devices. It requires a proper configuration of flexible machinery on the production line and cooperation in the design phase among engineers, assembly-line workers, and even suppliers. Maximum efficiency also requires the ability to adjust machinery quickly and simply to turn out different models of the same products, be they automobiles or household appliances.

However, this is not to suggest the beginning of a turnaround in the bilateral trade disequilibrium. Even a more vigorous turnaround by American industry would be insufficient to overcome the disadvantages imposed by the fact that American economic policymaking does not put nearly enough emphasis on enhancing industrial competitiveness as Japan does. For example, the Japanese government has always put a major emphasis on ensuring that high-growth industries have ample amounts of low-cost capital. In the United States, government and business remain adversaries instead of trying jointly to forecast what goals and important new technologies the country's private sector should be pursuing. The American political establishment remains stubbornly opposed to any form of industrial policy in the increasingly important sector of commercial high technology, while mysteriously embracing it in sectors like agriculture and military aerospace. United States tax laws still encourage companies to go into debt to make acquisitions or engage in leveraged buy-outs.

While those presumed to be America's best and brightest are speculatively buying and selling corporate assets and issuing junk bonds of questionable value, the Japanese methodically go about the business of expanding sales through efficient, high-volume, low-defect production methods. While the United States focuses on how to carve up the existing national economic pie, the Japanese seek to

enlarge it. While American executives try to please shareholders and maximize their incomes — admittedly a very efficient system — their Japanese competition is trying to please customers and maximize market share — sometimes an even better system.

The Japanese government has the simpler task in designing an optimal negotiating strategy with its United States counterpart. First, it relies on its vast commercial intelligence network in Washington to determine when United States threats are genuine. Second, the Japanese government relies on an even vaster public relations and lobbying network in the United States to get articulate, highly visible versions of Japanese viewpoints and rebuttals before United States officials as well as the general public. Third, it continues to find scattered import barriers to reduce. Japan's nearly quarter century of import liberalization is unique for more than just its extent; it has had the singular motive of seeking not to give lower prices to Japanese consumers but to please American demands. The potential for cheaper imports has been deemed a sacrifice, not an economic bonanza as it would in the United States. Fourth, when United States pressures intensify, the Japanese government pressures the appropriate Japanese companies to ease off on further export growth.

Japan's official trade agenda is basically reactive; the private sector takes the initiative and sets the tone. Most Japanese are satisfied with their country's trade performance and trade surplus. They prefer to stick with a winning formula, wanting nothing basic to change other than for the United States and other trading partners to be more understanding, to stop making threats, and not to pester them for ever more concessions. Japan's mounting global industrial and technological strength is accomplishing one of the transcendent goals of 2,000 years of Japanese history: retaining its political and cultural independence by carefully controlling and limiting foreign intrusion and leverage.

The United States government has found it much more difficult to set an effective bilateral trade agenda because its industry remains on the defensive. In lieu of adopting a grand strategy of homing in on the systemic problem, however, it has pursued piecemeal tactics aimed at changing trading conditions on a product-by-product basis. It has never known exactly how far to push Japan, fearing the triggering of protectionist trade actions or, even worse, political strains. Internal economic shortcomings have always been recognized as contributing to the trade disequilibrium, but for the past decade most of them have been attributed to government interference, not the lack of effective government initiatives or existing mistakes.

The net result is that United States trade policy toward Japan is the worst of both worlds. On the one hand, strident demands make the United States look like a bully with an unending request list. On the other hand, the lack of determination and consistency in United States policy has yielded wholly inadequate results. American negotiating strategy has been largely reduced to a repeated and somewhat predictable version of the good-cop/bad-cop routine of old Hollywood movies. After a ritualistic warning by the liberal trade-loving executive branch that the protectionist ogres in Congress are on the brink of passing restrictive trade legislation, Japan produces a ritualistic market-opening measure or export-restraint agreement, depending on the situation.

When the administration relies on the "congressional card," it implicitly links itself with purportedly fellow free traders in Japan in order to fight villains in another part of the United States government. In the words of a former United States negotiator: "The negotiation thus changed direction: originally a matter of U.S. government requests, it became one of mutually calibrating just how much action would be necessary to keep Congress leashed. Instead of a negotiator, the U.S. trade team became an adviser to the government of Japan on how to handle the U.S. Congress."²

The United States government would be well advised to develop a consensus on its needs and goals in the bilateral trade relationship, as well as how hard it is willing to press to achieve them. A unified strategy must come from the Office of the President, and it is unlikely to be produced by conventional policymaking forums. For legitimate intellectual reasons, Japan policy continues to be "trifurcated" along the classic lines of the bureaucratic politics model of decision making. The State Department, the National Security Council and parts of the Defense Department tend to argue that commercial issues are secondary to the larger goal of preserving the political and military alliance with Japan. The Treasury Department, the Council of Economic Advisers, and the Office of Management and Budget view themselves as the defenders of the free market and opponents of any official intervention to determine the composition of trade flows. These two sets of forces are pitted against the third bureaucratic version of what is truly in the United States national interest—the trade hawks. The Office of the United States Trade Representative, the Commerce Department, and those parts of the Defense Department worried about increasing dependence of United States weapons systems on

Japanese electronics components view themselves as the spokespeople in government for both a largely battered, misunderstood American industrial sector and for a more decisive, aggressive, and consistent trade policy (bilaterally and multilaterally).

The first stage of a more effective United States–Japanese trade dialogue would consist of both countries formally acknowledging the applicability of the Japanese proverb that when two men fight, both are at fault. Japan needs to accept the fact that selling advanced manufactured goods to its market still poses extraordinary difficulties to most foreigners. Pointing to its increased imports of consumer goods or to healthy sales and profits by United States corporate subsidiaries producing in Japan is not the same thing as demonstrating that the Japanese market for high-tech goods is "reasonably" open in regard to cost, energy, and effort. Japan's industrial policy tends to target the same high-tech industries—such as computers, semiconductors, telecommunications equipment, and biotechnology—in which the United States has (or had) international competitive strength. The United States should not be content with even a bilateral trade surplus with Japan if it was caused by a boom in exports of agricultural and other primary products. Japan ought to realize that the more it discusses its "internationalization," the less likely it truly exists.

The United States needs to accept the fact that, quite apart from its legitimate complaints about the relative difficulty and cost of exporting to Japan, its lack of competitiveness vis-à-vis Japanese products, especially in its home market, is primarily the result of shortcomings in United States domestic economic policies, management practices, and production skills. The United States needs to accept the costly nature of protectionist trade policies, inasmuch as they tend to dissipate pressures on American producers to continue cutting costs and raising quality. Furthermore, restrictions on Japanese goods have already been shown to be harmful to the increasing number of American companies using Japanese-made capital goods and components. At the same time, the United States government must realize that more of the same is not an optimal strategy.

As long as it avoids the somewhat arbitrary idea of putting specific numbers on what Japan should be buying, the United States would be well advised to follow the basic recommendation of the 1989 report to the United States Trade Representative by the Advisory Committee for Trade Policy and Negotiations: the United States should

structure a program of action that pursues change on multiple fronts, commits adequate resources over a 4-5-year period, is strategically focused, and is results-oriented. This program we see as a natural evolution

²Clyde Prestowitz, Jr., *Trading Places* (New York: Basic Books, 1988), p. 281.

of U.S. trade policy from a more or less reactive response to the damage wrought by the strong dollar in the early 1980's, to active efforts to create the conditions necessary for the growth of industries and sectors critical to the nation's long-term economic vitality.³

Japan should embrace as an integral part of its trade policy the belief that, in the long run, its national security is more likely to be enhanced by the friendship of trading partners than by the size of its trade surplus. The Japanese government needs to promote a whole new mind-set in Japan that encourages more attention to the Japanese consumer. This effort would need to be supported by such reforms as a more vigorous legal challenge to cartels and the easing of restrictions on large chain stores (they are more attracted to imports than the small stores effectively controlled by Japanese manufacturers). Furthermore, the government needs to go beyond slogans to generate a genuine consensus among Japanese industries that it is no longer in the national interest to discriminate against imports.

No matter how open the Japanese market becomes (or how much additional leisure time Japanese workers opt for), there is no reason to expect a diminution of Japan's increasing excellence in advanced technologies. If American exports to Japan are to rise and if American imports from Japan are not to swamp important high-tech industries, the United States clearly needs to improve its business environment. The appropriate starting point is an immediate, genuine (as opposed to accounting smoke and mirrors) reduction in the United States budget deficit. By reducing the government's absorption of the available capital pool, productive investment in the industrial sector would be encouraged by the assumed reduction in interest rates that would occur with a reduced federal budget deficit.

Furthermore, the government needs to realize that the nature of modern economics and the fading dividing line between military and civilian technology justify increased official funding of expensive or risky, but promising, new commercial technologies. While the United States does not need a comprehensive "industrial policy" to replace its basic dependence on corporate investment and venture capital, it does need additional government seed money to help entrepreneurial companies compete with the deep pockets of their larger, better financed, vertically integrated Japanese competitors.

No matter what Washington does to improve the

domestic business environment, it will not be enough unless American business executives alter their behavior. They must place less emphasis on short-term profits, year-end bonuses, and wheeling and dealing in mergers, acquisitions and leveraged buy-outs. A significant part of the trade battle with Japan continues to be lost on the factory floor.

Official encouragement of dollar depreciation to an exchange rate of between 100 yen and 200 yen would aid American competitiveness, but it is not a panacea. Yen appreciation has not and will not keep Americans from buying high-quality Japanese goods, nor will it open the floodgates in Japan to imports of American-made manufactured goods.

There are two problems with this list of proposed policy and program reforms. First, it is far from definitive. At the same time, however, neither country is likely to act quickly on its contents. A resolution in the underlying causes of the trade disequilibrium can only be foreseen by optimists. More likely than not, the systemic causes of frictions will remain unaddressed. United States industry may well do better in the competitiveness race but not as well as Japan in the pursuit of excellence in the important new technologies. There is no reason to expect the industrial competitiveness gap to narrow significantly. It therefore appears that during the 1990's Japan is fated to remain America's number-one foreign competitor, number-one illuminator of shortcomings in United States economic policies and business practices, and the principal source of frustration to American trade policymakers.

Continuation of an inferior industrial performance relative to Japan is not conducive either to the long-term economic prosperity or national security interests of the United States. Regrettably, in its successful but short-sighted pursuit of profit and consumption maximization, America cannot be bothered to respond more effectively to the long-term challenges of the alternative model of capitalist power being pursued in Japan. Also regrettably, Japan is not likely to find increased economic success a reason to become truly less insular. By the turn of the century, the inadequacies of United States trade and economic policies may cause this country to fail two key tests cited by Paul Kennedy in *The Rise and Fall of the Great Powers*:

whether, in the military/strategical realm, it can preserve a reasonable balance between the nation's perceived defense requirements and the means it possesses to maintain those commitments; and whether, as an intimately related point, it can preserve the technological and economic bases of its power from relative erosion in the face of the ever-shifting patterns of global production.⁴

³"Analysis of the U.S.-Japan Trade Problem" (Report of the Advisory Committee for Trade Policy and Negotiations, Washington, D.C., February, 1989), p. ix.

⁴Paul Kennedy, *The Rise and Fall of the Great Powers* (New York: Random House, 1987), pp. 514-515.

THE MONTH IN REVIEW

A Current History chronology covering the most important events of February, 1991, to provide a day-by-day summary of world affairs.

INTERNATIONAL

European Community (EC)

(See also *Intl, GATT*)

Feb. 19—The European Parliament's budget committee approves a \$1-billion food package for the Soviet Union that was blocked by the Parliament on January 22 to protest Soviet repression in the Baltic republics.

General Agreement on Tariffs and Trade (GATT)

Feb. 26—In Geneva, GATT's 108-nation Trade Negotiating Committee resumes the Uruguay Round of global trade talks; the talks broke off in December because of a dispute between the U.S. and the EC over farm subsidies.

International Monetary Fund (IMF)

(See *Poland*)

Palestine Liberation Organization (PLO)

(See also *Israel, Lebanon*)

Feb. 15—Lebanese police report that a mutiny against the regional commander of the Fatah wing of the PLO in southern Lebanon has set off fighting among an estimated 700 guerrillas; 17 guerrillas have been killed and 40 have been wounded.

Feb. 16—After being tried by a PLO "revolutionary court," 20 Fatah guerrillas are executed for their role in yesterday's mutiny, according to Lebanese security officials.

Persian Gulf War

(See also *Intl, UN; U.S., Administration, Foreign Policy*)

Feb. 3—The U.S. Central Command in Riyadh, Saudi Arabia, announces that an investigation has shown that 7 of the 11 marines who died January 29 west of Khafji, Saudi Arabia, were killed by friendly fire when a U.S. missile hit their armored vehicle.

Feb. 4—In a news conference in Teheran, Iran's President, Hashemi Rafsanjani, offers to meet personally with Iraq's President, Saddam Hussein, and to serve as a mediator between Iraq and the U.S. in ending the Gulf war.

Feb. 5—Baghdad Radio announces that the sale of fuel, including fuel oil, gasoline and cooking gas, has been suspended in Iraq.

Richard G. Darman, director of the U.S. Office of Management and Budget, in testimony before the Senate Budget Committee, details pledges of financial contributions to the U.S. for its expenses in the Gulf war; he says Saudi Arabia has pledged \$16.8 billion; Kuwait, \$16 billion; Japan, \$10.7 billion; and Germany, \$6.6 billion; Darman says that less than \$8 billion has been delivered.

Feb. 12—Soviet President Mikhail Gorbachev's special envoy, Yevgeny Primakov, meets with Saddam in Baghdad; a Baghdad Radio broadcast afterward says Saddam told Primakov that Iraq is prepared to negotiate a solution to the "situation in the Gulf."

Feb. 13—Two bombs dropped by a U.S. fighter-bomber destroy a building in the Al Amiriya residential district of Baghdad, killing hundreds of civilians; Iraqi officials say the building was a civilian bomb shelter, but the U.S. Department of Defense says it was converted for use as a military command-and-control center in 1985.

Feb. 15—In a statement read over Baghdad Radio, the 8-member ruling Revolutionary Command Council, which is headed by Saddam, announces Iraq's "readiness to deal with" UN Security Council Resolution 660, which calls for Iraq's immediate and unconditional withdrawal from Kuwait; the statement says that an Iraqi pledge to leave Kuwait is conditioned on a comprehensive cease-fire and the rescission of the 12 UN resolutions on Iraq passed in 1990.

U.S. President George Bush responds to the Iraqi peace proposal by saying it "appears to be a cruel hoax." President Bush says it is "full of unacceptable old conditions," and that "Saddam Hussein has added several new conditions."

Feb. 16—Iraqi officials put the death toll in the February 13 Al Amiriya bombing at 314 people.

Feb. 17—Gorbachev sends President Bush a cable outlining a Soviet peace proposal; Iraqi Foreign Minister Tariq Aziz is flying to Moscow to discuss the proposal.

Feb. 19—During a 3½-hour meeting, Gorbachev presents to Aziz the Soviet peace plan; carrying the plan back to Iraq for approval, Aziz meets in Teheran with President Rafsanjani; no details about the plan are released.

Feb. 21—The U.S. Central Command reports that the U.S. has lost 23 aircraft in combat and 18 in noncombat accidents since the beginning of the war on January 17; the rest of the multinational force has reported 9 aircraft lost.

Feb. 22—Aziz returns to Moscow, where he meets with Gorbachev; after the meeting, Gorbachev's spokesman, Vitaly Ignatenko, announces that Iraq has accepted Moscow's peace plan, which calls for a cease-fire and the withdrawal of Iraqi forces from Kuwait beginning on the 2d day after a cease-fire and to be completed within 21 days; the proposal also calls for the rescission of the 12 UN resolutions on Iraq once the withdrawal is completed.

While praising the Soviet Union's "serious and useful" peace effort, President Bush says that Iraqi troops must begin to pull out of Kuwait by noon, Eastern standard time, on February 23, and must be out of Kuwait City within 48 hours and out of Kuwait entirely within a week.

Ignatenko announces a revised peace proposal worked out by Aziz, Soviet Foreign Minister Aleksandr Bessmertnykh and Primakov; he says it calls for a pullout of Iraqi troops from Kuwait beginning 24 hours after a cease-fire and lasting no more than 21 days, and a withdrawal from Kuwait City within 4 days.

Feb. 23—Thomas Pickering, the U.S. ambassador to the UN, says, "the Soviet proposals fall short of what we need."

Feb. 24—Ground and airborne forces from the multinational coalition begin an assault from Saudi Arabia on Iraqi forces; 2 U.S. Marine divisions and other troops from the multinational force breach Iraqi defenses and reportedly push 50 miles into Kuwait to the outskirts of Kuwait City; airborne units backed by armored divisions move into southern Iraq.

Feb. 25—Baghdad Radio announces that Iraqi armed forces have been given the order to withdraw from Kuwait "to the positions held prior to August 1, 1990," which it says is in "practical compliance with [UN] Resolution 660."

An Iraqi surface-to-surface Scud missile lands on a U.S. military barracks near Dhahran, Saudi Arabia, killing 28 U.S. soldiers and wounding 100.

The New York Times reports that Iraq has launched 39 Scuds against Israel since the beginning of the Gulf war; at least 2 Israelis have been killed in the attacks.

Feb. 26—Responding to Iraq's announcement that it will withdraw from Kuwait, President Bush says that the coalition will "continue to prosecute the war with undiminished intensity," because Iraq still does not accept all the UN Security Council resolutions on Iraq or President Bush's terms of February 22.

At the U.S. Central Command, Brigadier General Richard I. Neal says that 517 of Kuwait's 950 oil wells have been set on fire by Iraqi troops.

Feb. 27—Arab forces and U.S. marines gain control of Kuwait City and its airport.

The U.S. Army VII Corps and 24th Infantry Division engage Iraq's Republican Guard in a battle 50 miles west of Basra that involves 800 U.S. armored vehicles and at least 250 Iraqi armored vehicles.

In a nationally televised speech, President Bush declares that "Iraq's army is defeated" and "Kuwait is liberated." He announces that the multinational force will cease hostilities as of midnight Eastern standard time, "exactly 100 hours since ground operations commenced," so long as Iraqi troops do not attack coalition forces or those of any other country; he also says he will send U.S. Secretary of State James A. Baker 3d on a tour of the Middle East.

At a news conference, General H. Norman Schwarzkopf, the commander of the multinational force, reports U.S. combat losses in the war: 79 troops have been killed, 213 wounded and 44 are missing in action; 13 soldiers from Arab countries, 13 from Britain and 2 from France have also been killed; there are no official reports on the number of Iraqi casualties.

Feb. 28—The U.S. Defense Department says that 4,000 of Iraq's 4,200 main battle tanks were destroyed in the war.

President Bush announces that Iraqi military leaders have agreed to meet with multinational force commanders to work out terms of the cease-fire.

United Nations (UN)

(See also *Intl. Persian Gulf War; El Salvador*)

Feb. 27—In a letter to the Security Council, the Iraqi government says that it will comply with the 12 UN resolutions concerning Iraq's invasion of Kuwait.

Feb. 28—At a meeting of the 5 permanent members of the Security Council, the U.S. proposes a resolution that offers a formal cease-fire in the Gulf war in return for Iraq's release of all prisoners of war, captured civilians and Kuwaiti property; among other conditions, the resolution gives the multinational coalition the right to use force if Iraq fails to comply with these terms.

Warsaw Treaty Organization (Warsaw Pact)

Feb. 25—Meeting in Budapest, foreign and defense ministers from the Soviet Union and the 6 East European member countries agree to dissolve on March 31 the military alliance, which was established in 1955.

AFGHANISTAN

(See *Pakistan*)

ALBANIA

Feb. 7—For a 2d day, about 8,000 students, led by representatives of the newly formed opposition Democratic party, strike in Tirana to demand economic change and the government's resignation.

Feb. 9—In Durrës, thousands of Albanians attempting to flee the country clash with police after police try to turn back

those who lack travel documents; at least 2 people are killed.

Feb. 20—Responding to continued anti-Communist demonstrations, President Ramiz Alia says he will name a new government.

In Tirana and Durrës, thousands of protesters topple statues of Enver Hoxha, Alia's predecessor and the founder of the Communist government of Albania.

Feb. 22—Alia appoints a Communist caretaker government, replacing 16 of 18 Cabinet members; no members of the opposition are appointed. Elections are scheduled for March 31.

In Tirana, security forces clash with demonstrators; 4 people are killed.

Feb. 23—In Tirana, scattered sniper fire by some hard-line military units opposed to Alia's attempted political changes is reported; a group of officers at a military school in north-eastern Tirana issues an ultimatum demanding the restoration of monuments honoring Hoxha. Pro-Communist demonstrators from rural areas hold rallies in several small cities.

ANGOLA

Feb. 8—After 2 days, talks in Lisbon, Portugal, between the Angolan government and the National Union for the Total Independence of Angola (UNITA) break down because of disagreement over the date for a cease-fire; UNITA representatives say the draft accords already approved did not include discussion of a cease-fire date.

BANGLADESH

Feb. 28—National elections are held; the Bangladesh Nationalist party wins a plurality of 140 seats in the 330-seat Parliament; the head of the party, Khaleda Zia, may choose the prime ministership or the presidency. Zia is the widow of Ziaur Rahman, who was President from 1979 until he was assassinated in 1981.

CANADA

(See *U.S., Foreign Policy*)

CHINA

Feb. 12—Ending the wave of political trials of pro-democracy protesters, a people's court in Beijing sentences longtime democracy activists Wang Juntao and Chen Ziming to 13 years in prison in connection with the 1989 pro-democracy demonstrations; these are the longest prison terms handed out during the trials.

COLOMBIA

Feb. 5—*The New York Times* reports that more than 40 people have been killed in 2 days of guerrilla attacks in various parts of the country; Colombian authorities claim that rebels of the Revolutionary Armed Forces of Colombia (FARC) are responsible.

Feb. 17—The Caracol radio network reports that terrorists working for drug traffickers have taken responsibility for a car bombing yesterday in Medellín that killed 22 people and injured 140.

CZECHOSLOVAKIA

(See *Hungary*)

EL SALVADOR

Feb. 8—Peace talks mediated by the United Nations between the government and representatives of the Farabundo Martí National Liberation Front (FMLN) resume after a 4-week halt.

Feb. 11—In Chalatenango province, 13 people are reported killed and at least 20 are reported injured in an attack yester-

day on government troops by the FMLN.

FRANCE

(See also *Intl, Persian Gulf War*)

Feb. 26—Overseas Minister Louis Le Pensec and about 240 police and paramilitary troops are sent to quell an outbreak of violence in St. Denis, Réunion; in 3 days of rioting in the French territory, touched off by the seizure of a pirate television station on February 24, 8 people were killed.

GERMANY

(See also *Intl, Persian Gulf War*)

Feb. 28—For a 2d day, tens of thousands of workers stage strikes and work stoppages in eastern Germany to protest rising unemployment and other economic problems.

HAITI

(See also *U.S., Foreign Policy*)

Feb. 7—Jean-Bertrand Aristide is sworn into office as President; he is Haiti's 1st democratically elected President.

HUNGARY

Feb. 15—Prime Minister Jozsef Antall of Hungary, President Vaclav Havel of Czechoslovakia and President Lech Walesa of Poland sign a mutual political cooperation accord in Visegrad, Hungary.

INDIA

Feb. 3—Prime Minister Chandra Shekhar dismisses the government of Tamil Nadu state in southern India; Shekhar says the state government was aiding Tamil separatists from Sri Lanka and revolutionaries from Assam state. The national government will rule Tamil Nadu directly; this is the 4th time since he took office that Shekhar has dismissed a state government led by opposition parties.

IRAN

(See *Intl, Persian Gulf War; U.S., Foreign Policy*)

IRAQ

(See *Intl, Persian Gulf War, UN; U.S., Foreign Policy*)

ISRAEL

(See also *Intl, PLO, Persian Gulf War; Lebanon; U.S., Foreign Policy*)

Feb. 1—The right-wing Moledat party, which advocates deporting all Palestinians from the occupied territories, joins the governing coalition; this gives the coalition 66 seats in the Knesset, 5 more than necessary for a majority.

Feb. 3—Prime Minister Yitzhak Shamir, who advocated Moledat's entry into the Cabinet, says he disagrees with Moledat's political platform calling for the mass expulsion of Palestinians.

Feb. 4—In his annual address to the Knesset, Shamir says that until Arab nations end their state of belligerency against Israel, Israel will not attend any international peace conference on the Middle East, will not negotiate with the Palestine Liberation Organization (PLO) and will not move to resolve the Arab-Israeli dispute.

Feb. 5—The army relaxes the curfew in the West Bank and Gaza, warning that it may be reimposed if pro-Iraqi demonstrations continue; the curfew began on January 18 after war broke out in the Persian Gulf.

ITALY

Feb. 3—In an attempt to distance itself from Marxism-Leninism, the Communist party of Italy renames itself the Democratic party of the Left.

JAPAN

(See also *Intl, Persian Gulf War*)

Feb. 11—Kansai Electric Power Company officials say that after an accident on February 9 at its Mihama Nuclear Power Plant, operators waited nearly an hour before shutting down the plant and that a "small amount" of radiation was released; the accident, which was apparently caused by a breach in the tubes that carry radioactive water heated in the nuclear core, is Japan's worst nuclear power plant accident.

KOREA, NORTH

Feb. 18—North Korea says it is canceling the next session of talks with South Korea, because South Korea is proceeding with its annual joint military exercises with the U.S.; the talks are expected to resume after the conclusion of the military exercises in March.

KOREA, SOUTH

(See *Korea, North*)

KUWAIT

(See also *Intl, Persian Gulf War; U.S., Foreign Policy*)

Feb. 27—In Saudi Arabia the Kuwaiti government in exile names Prime Minister Sheik Saad al-Abdullah al-Sabah the head of a temporary government in liberated Kuwait; it also declares that martial law will be in force for 3 months.

LEBANON

(See also *Intl, PLO*)

Feb. 1—For a 4th day, Israeli troops and Palestinian guerrillas clash in southern Lebanon in Israel's self-proclaimed security zone.

Feb. 3—The government says it is sending troops to southern Lebanon to counter the PLO's power there; it also announces the arrest of 4 Palestinian guerrilla officials when they arrive in Lebanon; among them is Walid Khalid, the spokesman for the PLO's Fatah Revolutionary Council.

Feb. 5—Near Sidon, Israeli fighter-bombers attack 10 Palestinian guerrilla bases, killing 12 people and injuring 25.

Feb. 6—For the 1st time in 13 years, Lebanese troops move into southern Lebanon in an attempt to assert government control of the area; about 1,000 soldiers take part.

LIBERIA

Feb. 14—After 2 days of talks in Togo, the 3 rival factions that have been battling for control of Liberia announce an agreement to form an interim government in March and to permit the West African peacekeeping force to maintain order until then.

MEXICO

(See *U.S., Foreign Policy*)

NICARAGUA

Feb. 16—Enrique Bermúdez, the former leader of the contras, the U.S.-supported rebels that tried to overthrow the Nicaraguan government, is assassinated in Managua; no one claims responsibility for the killing.

PAKISTAN

Feb. 1—An earthquake measuring 6.8 on the Richter scale kills at least 100 people and causes widespread damage. In Afghanistan, where the quake is centered in the Hindu Kush mountains, 4 people are reported dead.

PERU

Feb. 14—Because of disagreements over how best to reduce inflation, Prime Minister and Economy Minister Juan Carlos

Hurtado Miller resigns; the other 13 ministers also resign. Carlos Boloña Behr is appointed finance minister.
Feb. 15—Carlos Torres y Torres is appointed Prime Minister and foreign minister.

PHILIPPINES

Feb. 6—Lieutenant Colonel Victor Batac, who led a coup attempt in 1987, and Major Abraham Purugganan, who led a coup attempt in 1989, are captured in separate incidents by loyalist troops.

POLAND

(See also *Hungary*)

Feb. 24—The government announces an agreement with the International Monetary Fund (IMF) that guarantees loans to Poland of more than \$2 billion over 3 years; the accord must be approved by the government and the IMF.

SAUDI ARABIA

(See *Intl, Persian Gulf War; U.S., Economy, Foreign Policy*)

SOMALIA

Feb. 10—The *Standard*, a Kenyan newspaper based in Nairobi, reports that fighting has broken out in Afgoi between the United Somali Congress (USC) and the Somali Patriotic movement, 2 rebel groups that were loosely allied before the USC ousted President Mohammed Siad Barre on January 26; the USC installed Ali Mahdi Mohamed as President 3 days later.

SOUTH AFRICA

(See also *U.S.S.R.*)

Feb. 1—Opening the 1991 session of Parliament, President F.W. de Klerk announces that he will ask Parliament to repeal the laws on which apartheid is based: the Land Acts of 1913 and 1936, which designated most of the land for whites, and the Group Areas Act of 1966, the Population Registration Act of 1950 and the Black Communities Act of 1984. He says that repeal of the Population Act will require a new constitution; he proposes "temporary transitional measures" to maintain the current constitution until a new one is drafted.

Feb. 2—Nelson Mandela, deputy president of the African National Congress (ANC), says he welcomes de Klerk's proposals but obstacles to a new constitution remain: he urges continuing economic sanctions against South Africa.

Feb. 11—Police report that yesterday gunmen ambushed a motorcade of supporters of the Zulu Inkatha movement, killing 17 people and injuring 29; renegade members of the ANC are suspected of staging the attack.

Feb. 15—In a statement issued after a meeting between de Klerk and Mandela in Cape Town yesterday and made public today after being approved by the Cabinet, the ANC agrees to stop training ANC guerrillas in South Africa and to no longer condone violent protest, in exchange for a government acknowledgment of the ANC's right to engage in nonviolent protest.

SRI LANKA

(See *India*)

SYRIA

(See *U.S., Foreign Policy*)

THAILAND

Feb. 23—Military rebels led by General Sunthorn Kongsompong seize Prime Minister Chatichai Choonhavan and declare a new government; a radio announcement says that martial law has been established, that the constitution in ef-

fect since 1978 has been suspended and that Sunthorn is assuming the office of caretaker Prime Minister until elections can be held.

TURKEY

Feb. 7—An American civilian employee at the joint U.S.-Turkish Incirlik Air Base near Adana is killed by a gunman outside his home; an underground leftist group claims responsibility, saying the killing was to protest the use of the base for air strikes on Iraq.

U.S.S.R.

(See also *Intl, EC, Persian Gulf War, Warsaw Pact*)

Feb. 1—President Mikhail Gorbachev appoints government delegations to discuss political issues with the Baltic republics; he says this is a "move away from the violence" that has occurred in Soviet efforts to suppress independence movements in the Baltic republics.

Feb. 5—The government announces a 50 percent increase in joint army patrols with police and extends the patrols, which began February 1, to 86 cities.

Feb. 7—Prosecutor General Nikolai Trubin says the government's plan to clean up and evacuate the town of Chernobyl after the release of radiation from a nuclear reactor accident in April, 1986, contained serious flaws; he charges that officials in charge of the clean-up failed to evacuate people quickly and safely enough, did not dispose of contaminated waste properly and resettled people in contaminated areas. Trubin says some officials will face criminal charges.

Feb. 12—In an interview with *Trud*, the trade union newspaper, Prime Minister Valentin Pavlov says the government removed 50- and 100-ruble notes from circulation on January 22 to foil a plot by Western bankers to topple the Soviet government and destabilize the economy by acquiring billions of rubles on the black market. Pavlov, who became Prime Minister on January 14, announced the plan to remove the ruble notes.

Feb. 13—The government announces a plan to end subsidies on most consumer goods, except meat, fish and milk, and raise retail prices by an average of 200 to 300 percent.

Feb. 19—In a televised speech, Boris Yeltsin, the president of the Russian republic, calls for Gorbachev to resign; he says Gorbachev is assuming dictatorial powers and demands that government authority be turned over to the new Federation Council, the presidential advisory board made up of representatives from the 15 republics; Yeltsin asks that a March 14 referendum on Gorbachev's proposed union treaty be turned into a vote of confidence on the Gorbachev government.

Feb. 20—The Congress of People's Deputies votes 292 to 29 with 27 abstentions to censure Yeltsin, saying that his remarks yesterday "violated the Soviet constitution."

Feb. 24—In Moscow, tens of thousands of Yeltsin supporters rally outside the Kremlin to demand Gorbachev's resignation.

Feb. 26—The Foreign Ministry announces that South Africa and the Soviet Union have agreed to open "interest sections" in each other's capitals.

UNITED KINGDOM

Great Britain

(See also *Intl, Persian Gulf War*)

Feb. 7—In London, 3 mortar rounds are fired from a van toward the Prime Minister's offices at 10 Downing Street while a meeting of Prime Minister John Major and his Cabinet is in progress; 3 people are injured. The Irish Republican Army (IRA) takes responsibility for the attack.

Feb. 18—Two bombs explode in Paddington and Victoria railroad stations in London, killing 1 person and injuring 40 at

Victoria; the IRA claims responsibility.

UNITED STATES

Administration

Feb. 4—President George Bush sends Congress his proposed \$1.45-trillion budget for fiscal year 1992, which begins October 1. The budget estimates a deficit of \$318 billion in 1991 and \$281 billion in 1992; it allocates only \$8.2 billion for the war in the Persian Gulf in fiscal year 1991 and \$4.6 billion in 1992; a separate budget request to cover additional war costs will be sent to Congress later.

Feb. 5—The Federal Aviation Administration (FAA) proposes changes to prevent runway collisions at airports, including improved ground radar systems.

The Treasury Department offers Congress a plan to reform the banking system; the proposal would remove barriers to interstate banking, permit industrial corporations to own banks, allow commercial and investment banks to merge, set limits on federal insurance for bank accounts, and allow banks to sell insurance if their states authorize it; under the plan, the Federal Deposit Insurance Corporation (FDIC) would no longer regulate banking institutions; the Federal Reserve Board and the Comptroller of the Currency would share that responsibility.

Feb. 14—The Bureau of Reclamation, which administers government-owned water reserves, announces that the water it supplies to California farmers, who are suffering from a 5-year drought, will be cut by 75 percent; farmers in the state obtain about 20 percent of their water from the U.S. government.

Feb. 20—President Bush announces a series of measures that make up his 20-year national energy program; the program calls for opening more offshore and Alaskan areas to oil and gas exploration, reducing regulation of oil and gas pipelines and changing the licensing procedure for nuclear power plants; the program would also remove barriers to natural gas imports.

Economy

Feb. 1—The Federal Reserve Board lowers its discount rate to 6 percent from 6.5 percent; many of the country's largest banks then reduce their prime lending rate from 9.5 percent to 9 percent.

The Labor Department reports that the nation's unemployment rate rose 0.1 percent in January, to 6.2 percent.

Feb. 20—The Labor Department reports that its consumer price index rose 0.4 percent in January.

The Commerce Department announces that housing starts fell at a seasonally adjusted rate of 850,000 units last month; this is the lowest rate since January, 1982.

Feb. 21—Citicorp, the largest banking company in the U.S., announces that Prince al-Waleed bin Talal, a member of the Saudi royal family, has agreed to invest \$590 million in Citicorp, making him its largest single shareholder.

Feb. 26—The Commerce Department reports that the U.S. merchandise trade deficit decreased by 3.1 percent in the 4th quarter of 1990, and by 5.4 percent for the year; the 1990 merchandise trade deficit of \$108.68 billion is the smallest since 1983. U.S. exports rose 8 percent, to a record high of \$389.29 billion, and imports rose 4.8 percent, to a record \$497.97 billion.

Feb. 27—The Commerce Department revises its estimate of the nation's gross national product (GNP) for the fourth quarter of 1990, showing an annual rate of decline of 2 percent rather than 2.1 percent.

Foreign Policy

(See also *Intl*, *GATT*, *Persian Gulf War*, *UN*; *Korea*, *North*)

Feb. 1—The State Department issues its annual report on

human rights in 168 countries. The report finds that in Iraq, "almost every category of human rights" has been "severely restricted or nonexistent"; that Israel in the occupied territories has used force excessively and imposed "restraints on non-violent political activity and expression"; the report also criticizes Kuwait before Iraq's invasion, Saudi Arabia and Syria.

Feb. 5—President Bush announces at a news conference that the U.S., Mexico and Canada will begin negotiations on a trilateral free trade agreement.

Feb. 6—In testimony before the House Foreign Affairs Committee, Secretary of State James A. Baker 3d outlines plans for the Persian Gulf region after the end of the Gulf war; he says that there must be a new regional security arrangement that includes Iraq and Iran.

Feb. 11—The Agency for International Development announces that the U.S. will contribute \$82 million to Haiti to help strengthen democracy and private sector growth; this is an increase of \$28 million from 1990.

Feb. 20—The State Department announces the release to Israel of \$400,000 in low-cost housing loans guaranteed by the U.S. government; the guarantees had been held up for a year while letters of assurance that the loans would not be used for construction on the West Bank, Gaza Strip or in East Jerusalem were negotiated.

Legislation

Feb. 7—The Senate unanimously confirms Lynn Martin, a former Republican congresswoman from Illinois, as secretary of labor.

Military

(See also *Intl*, *Persian Gulf War*)

Feb. 26—The Grumman Corporation announces that the Navy has canceled a \$988-million contract to modernize older F-14 fighter planes.

Political Scandal

Feb. 27—The Senate Ethics Committee announces its findings after a 14-month investigation into whether 5 senators intervened inappropriately with U.S. regulators on behalf of Charles H. Keating Jr. and his failed bank, Lincoln Savings and Loan. The committee says that Senator Alan Cranston (D., Cal.) engaged in "an impermissible pattern of conduct" that may warrant disciplinary action by the full Senate; it says that the conduct of Dennis DeConcini (D., Ariz.) and Donald Riegle Jr. (D., Mich.) "gave the appearance of being improper" and that John Glenn (D., Ohio) and John McCain (R., Ariz.) showed "poor judgment."

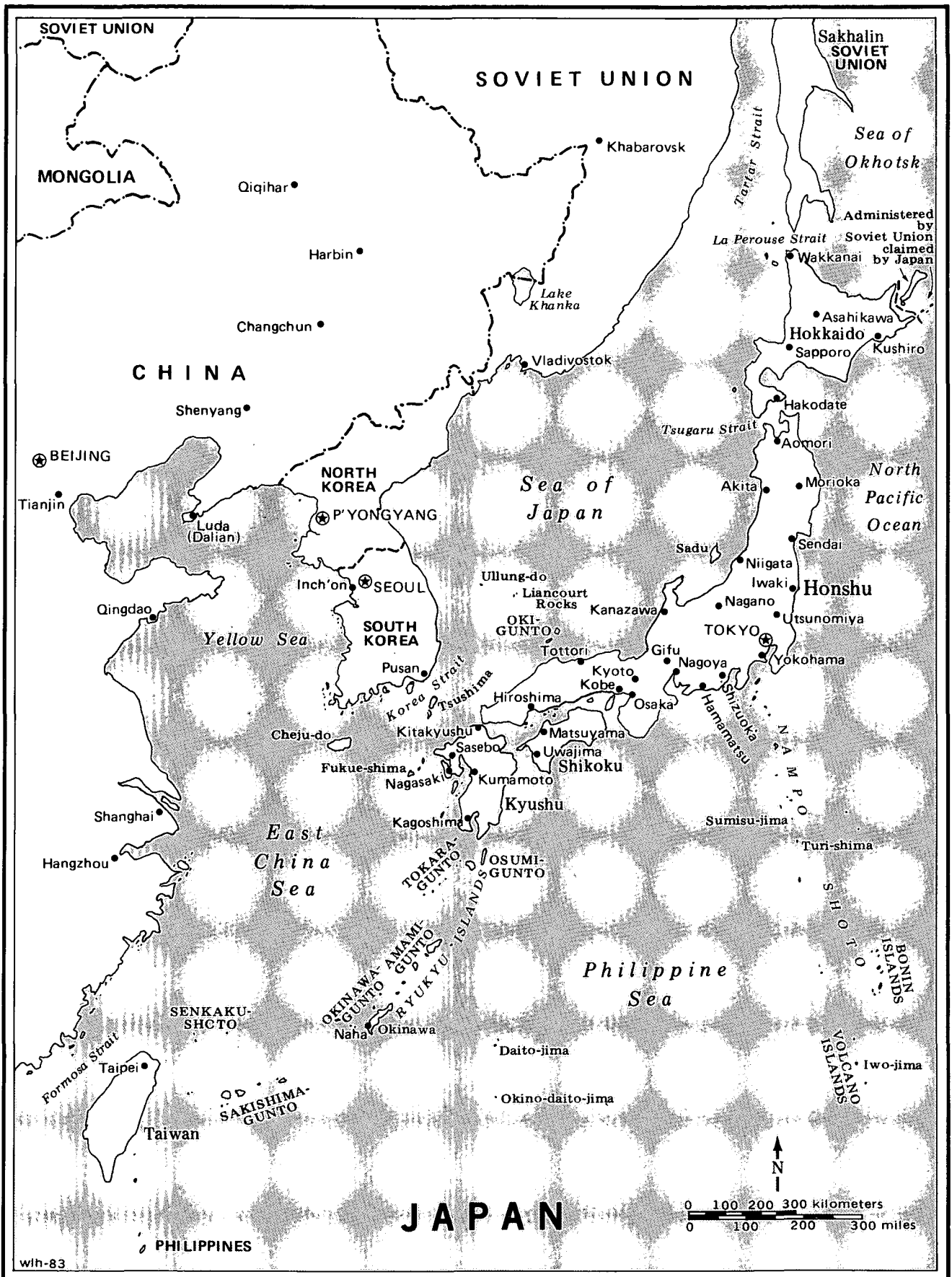
Supreme Court

Feb. 20—Upholding a 1989 decision by a U.S. appeals court in Atlanta, the Court rules 7 to 2 that illegal aliens in the U.S. may challenge in the courts the Immigration and Naturalization Service's administration of 2 amnesty programs for illegal aliens established by the 1986 immigration law.

YUGOSLAVIA

Feb. 20—The Slovenian republic parliament approves laws allowing it to take over defense, banking and other government functions from the central Yugoslav government; the parliament also approves a resolution to divide Yugoslavia into two separate states; Slovenia has warned that it will secede if the other republics do not approve the plan.

Feb. 21—The Croatian republic parliament adopts measures giving the republic government veto power over central government laws it considers threatening to the republic's sovereignty; the parliament also adopts resolutions that support the dissolution of the Yugoslav federation. ■



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